Yukon Economic Outlook

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Yukon
Economic Development

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Economic Forecasting and Risk

This forecast examines near-term expectations for Yukon's economy, focusing on the anticipated performance of key economic indicators and sectors. Like all forecasts, the results presented depend on the information available at the time and the key assumptions used.

While this forecast is based on the most complete information available as of August 16, 2013, there are some potential risks to its findings. Key examples are noted below:

- Global Economic Performance – While the medium-term prospects for the global economy appear positive, there are no guarantees. The global economy will be influenced by the degree to which the US and European economies recover, the rate at which the Asia Pacific countries continue to expand and unrest in parts of the world, such as the Middle East.

- Metal Prices – Metal prices are a key determinant of mining activity (exploration, development and production) and are determined on the global market, out of the control of any corporation or government. Estimates used in preparing this forecast are based on the projections of several leading forecasting firms.

- Energy Prices – Like metal prices, energy prices are determined on the world market. For example, oil is a key commodity for economic development, in important sectors such as mining (fuel for energy and equipment) and for the tourism industry (fuel for travelers' vehicles). It also affects the cost of Yukon construction.

- Exchange Rates – The value of the Canadian dollar versus other currencies can impact spending decisions by tourists and also investment decisions by resource-based companies, such as those exporting minerals to outside markets. A strengthening or weakening dollar may affect this forecast.

Highlights for 2012*

- Preliminary estimates indicate that Yukon's real GDP grew 3.4 per cent to almost $2.5 billion, from $2.4 billion in 2011, the ninth consecutive annual increase.
- Yukon's average annual population increased by 2.2 per cent in 2012 to just over 36,000. Increasing population in 2012 marked the ninth consecutive year of growth.
- Yukon's average annual unemployment rate of 6.9 per cent in 2012 was up from 5.4 per cent in 2011 but below the national average of 7.2 per cent.
- Yukon's labour force recorded a new average annual high of 20,400 in 2012 while employment averaged 18,900, down from the record 19,100 in 2011.
- Mineral exploration expenditures in 2012 are estimated at nearly $150 million, less than half of the record level of over $300 million estimated for 2011 but still well above the historic average.
- The value of Yukon mineral production in 2012 is estimated at about $510 million, up significantly from the estimated $367 million in 2011.
- Mine development expenditures in 2012 are estimated at nearly $100 million, down from an estimated $150 million in 2011. Lower expenditures were related primarily to the majority of the development work having been completed on the Wolverine and Bellekeno mines prior to 2012.
- The Department of Tourism and Culture reported 321,240 visitors (border crossings) in 2012, up 3.7 per cent from 309,863 in 2011.
- The value of building permits in Yukon in 2012 fell to an estimated $100.4 million, below the record $176.8 million noted for 2011. While down, it marked the fifth time in the last seven years that the value of building permits was at least $100 million.
- The value of retail sales in Yukon totaled a record $671.9 million in 2012, up 2.8 per cent from $653.6 million in 2011.

Forecast for 2013

- Even in light of difficulties in the mining sector, the current expectation is for Yukon's GDP to post growth for the tenth consecutive year in 2013, with real growth expected to be 0.9 per cent.
- Yukon's population is forecast to continue to grow in 2013 and average almost 36,500.
- Yukon's labour force is expected to remain at the record average annual high of 20,400 in 2013, while a decline in employment is expected to contribute to a slight increase in the unemployment rate.
- Weaker mineral prices are expected to contribute to lower exploration spending in 2013, falling to about $60 million, which would represent the lowest level of spending since the mid-2000s.

- Although prices for a variety of metals are expected to be lower in 2013, an expected increase in the level of mineral production should see the value of mineral production remain high and be within the $450-$500 million range.
- Recent weakness in commodity prices and the associated difficulty obtaining financing for project development has resulted in delays in mine project development in 2013 which is reflected in the lower development expenditures forecast of $80 million.
- Looking at the outlook for tourism, expectations for 2013 are for 328,000 border crossings, which represents visitation growth of 2.1 per cent.
- The value of building permits in Yukon is expected to decline to about $80 million, with declines expected in both residential and non-residential permits.
- The value of retail sales in 2013 is expected to be essentially on par with the estimated $672 million recorded in 2012.

Forecast for 2014

- Higher mineral production and expenditures related to development of two new mines are expected to contribute to real GDP growth of 8.8 per cent in 2014.
- Yukon's average annual population is expected to exceed 37,000, with the population of Whitehorse expected to exceed 28,000 in 2014.
- Yukon's average annual labour force is forecast to increase to a new high of 20,800 in 2014, while Yukon's average annual employment is expected to increase to a new record of 19,500.
- With employment gains expected to outpace labour force growth, the unemployment rate is expected to fall to 6.6 per cent in 2014.
- Exploration spending is forecast to increase marginally in 2014 to about $75 million.
- Benefitting from an expectation of higher production from all three current mining operations, and anticipation of slightly higher mineral prices, the value of mineral production is forecast to be upwards of $550 million in 2014.
- Mine development expenditures are expected to total upwards of $100 million in 2014.
- Annual border crossings are expected to grow by 1.5 per cent in 2014 to 333,000.
- The value of building permits is expected to grow to $125 million in 2014 with anticipated permitting related to the F.H. Collins School replacement in Whitehorse, residential activity related to the Whistlebend subdivision and new mine development all contributing to the annual total.
- The expectation is for retail sales to return to growth in 2014, with the forecast calling for retail sales to total $691 million.

Global, U.S. and Canadian Outlook

Since the economic downturn of 2008, the global economy has endured a number of years of uncertainty. More recently, continued growth in emerging market and developing economies is being coupled with anticipated higher gains in the United States which are expected to positively impact the Canadian economy. However, downside risks remain. In the absence of adequate policy measures, these threats may continue to pose problems similar to those of recent years or create new ones that may negatively impact the global economy.

The most recent update to the World Economic Outlook, released by the International Monetary Fund (IMF) in July 2013, stated that global economic growth in 2012 was 3.1 per cent, lower than that of 2011 (3.9 per cent). In the near-term, the IMF is calling for growth in 2013 to remain unchanged from 2012 and for growth of 3.8 per cent in 2014. As was the case in recent years, growth rates in emerging and developing economies in 2013 and 2014 are expected to surpass those of advanced economies. The IMF estimates that growth in emerging market and developing economies will reach 5.0 per cent and 5.4 per cent in 2013 and 2014 respectively. This outlook compares favourably with 2012 where growth is estimated at 4.9 per cent.[1]

Driving much of the gain in emerging market and developing economies has been growth in China and India. China posted estimated growth of 7.8 per cent in 2012, following growth of 9.3 per cent in 2011. With estimated growth of 3.2 per cent, India's growth slowed in 2012 but has been strong in recent history (6.3 per cent in 2011).

China is forecast to experience growth of 7.8 per cent in 2013 and 7.7 per cent in 2014. According to the IMF, India is also anticipated to experience relatively robust growth rates with predictions of 5.6 per cent in 2013 and 6.3 per cent in 2014. Stronger growth in emerging market and developing economies is being attributed to more resilient consumer demand, macroeconomic policy as well as the revitalization of exports.

The United States is still recovering from the impacts of the financial crisis as well as weak global demand. The IMF's forecast for economic growth in the country is 1.7 per cent in 2013 and 2.7 per cent in 2014. While these growth rates still remain relatively low, the expectation is that they would be achieved during a period of spending restraint and costs cutting measures by the U.S. Government. Growth of the U.S.

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[1] "World Economic Outlook (July 2013 Update)". International Monetary Fund. http://www.imf.org/external/pubs/ft/weo/2013/update/02/. (August 15, 2013)

economy in 2013 and 2014 is being attributed to increases in private demand and the continued recovery of the country's housing and credit markets.

Despite the positive forecast for global economic growth in the near-term, the IMF is forecasting negative growth in the euro area. This is primarily due to the poor profitability and low capital of many banks in the area which has resulted in a significant constraint on the supply of credit. In addition, many countries will be constrained by fiscal adjustments as well as weaknesses in their balance sheets. As a result, the IMF has projected that real GDP will contract in the euro area relative to 2012 by an estimated 0.6 per cent of GDP in 2013 followed by weak growth of 0.9 per cent in 2014.

Following growth of 2.0 per cent for Canada in 2012, the IMF is projecting slightly weaker growth of 1.7 per cent for 2013 but higher growth of 2.2 per cent for 2014. Growth in Canada is primarily being attributed to the continued recovery of the U.S. economy which will likely result in increased business investment and exports for the country as the U.S. continues to be Canada's biggest trading partner. Increased household debt as well as continued restraint in the housing market is predicted to negatively influence domestic demand.

For prices of key commodities for Canada, the story in the near-term is mixed. In terms of mineral prices, many forecasters are calling for the prices of gold, copper and silver to decrease in 2013 and 2014 putting pressure on Canada's mining sector. For nickel and lead, the prices are anticipated to decrease in 2013, however, prices are forecast to rebound in 2014 and surpass prices posted for 2012. For zinc, current expectations are for prices to post year-over-year gains in both 2013 and 2014. For petroleum products, many forecasters are calling for growth in oil prices and natural gas prices in 2013 and 2014. With Canada's abundance of oil and gas production, higher prices have positive ramifications for the country's growth prospects.

In terms of the global outlook, while forecasts have improved, there continues to be downside risks associated with growth. In the near-term, these threats have improved due to the policy actions employed by both Europe and the U.S. to address some of the most prominent risks. The threat of further economic and fiscal troubles in Europe, however, still remains. In the short-term, weak balance sheets and damaged credit channels within the global market will pose challenges for the global economy. Current and future fiscal policy stances potentially taken by the U.S. and Japan as well as high fiscal deficits and debts also present risks for the global economy. Depending on the policies adopted by these countries, global activity may either suffer or significantly aid

in a stronger recovery. Continued and ongoing escalated unrest in a number of oil-producing countries may also negatively impact global markets as increases in the global price of oil may result from the fear of possible supply interruptions. A prolonged period of high oil prices may hamper the recovery of some advanced economies as well as place negative pressures on developing countries. Volatility in financial markets may also result from high oil prices if businesses and consumers lose confidence.

In a press release on July 17, 2013, the Bank of Canada stated that it will maintain its overnight rate of 1.0 per cent. The Bank noted that "as long as there is significant slack in the Canadian economy, the inflation outlook remains muted, and imbalances in the household sector continue to evolve constructively the considerable monetary policy stimulus currently in place will remain appropriate."[2] The Bank also noted that, as these conditions unfold interest rates could be expected to increase to more normal levels.[3]

Outlook for Global, U.S. and Canadian Economies

- The IMF's update to the World Economic Outlook (July 2013) includes the following:
  - The Global economy to grow by 3.1 per cent in 2013 and 3.8 per cent in 2014;
  - The U.S. economy to grow by 1.7 per cent in 2013 and 2.7 per cent in 2014; and
  - The Canadian economy to grow by 1.7 per cent in 2013 and 2.2 per cent in 2014.

[2] "Bank of Canada maintains overnight rate at 1 per cent". Bank of Canada. http://www.bankofcanada.ca/2013/07/publications/press-releases/fad-press-release-2013-07-17/.
[3] Ibid

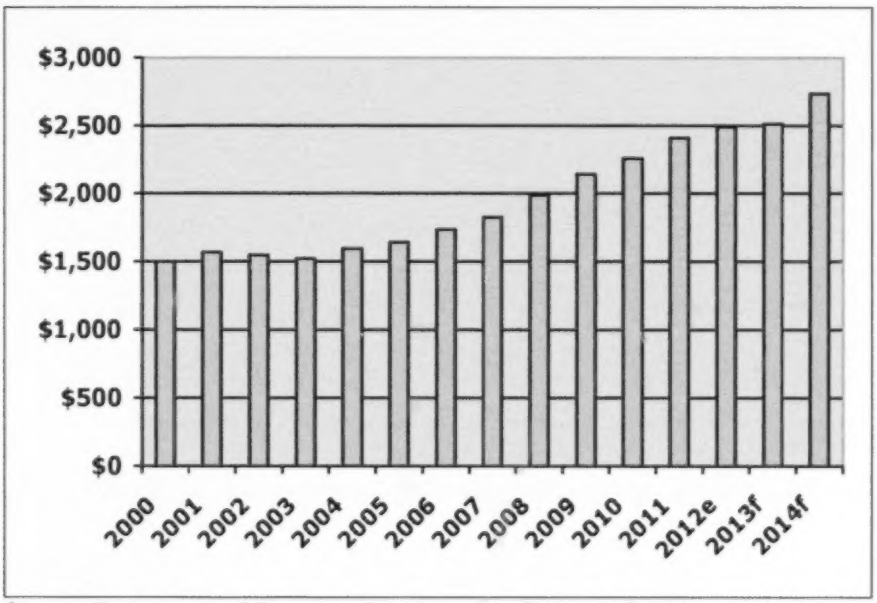
Recent Performance and Short-term Outlook

Economic Indicators

Gross Domestic Product

Preliminary data released in April 2012 estimates that Yukon's real GDP grew by 3.4 per cent.

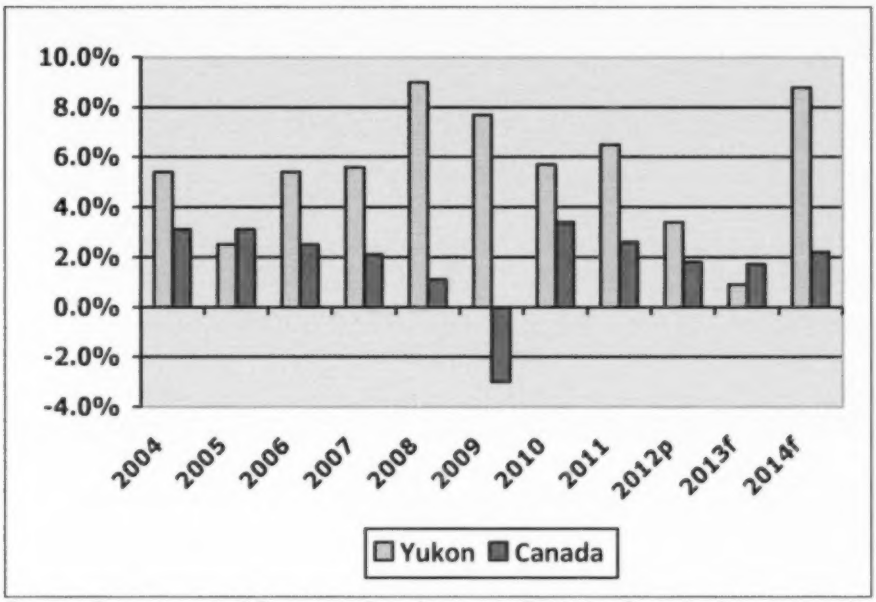
Figure 1 – Real GDP, Expenditure Based (2007$ millions)



Source: Department of Economic Development; Statistics Canada

With growth in 2012, the Yukon economy continues to be in the midst of a prolonged period of economic growth. Estimated growth for the territory of 3.4 per cent marks nine consecutive years of real Gross Domestic Product gains. During this time, Yukon has consistently been among the top jurisdictions in Canada in terms of economic growth with annual growth rates in Yukon above those of Canada in eight of the last nine years. For 2012, Yukon's estimated growth rate was third amongst all the provinces and territories behind only Nunavut (4.3 per cent) and Alberta (3.9 per cent). It was also almost twice the estimated national growth rate of 1.8 per cent.

Figure 2 – Real GDP – Annual Growth Rate



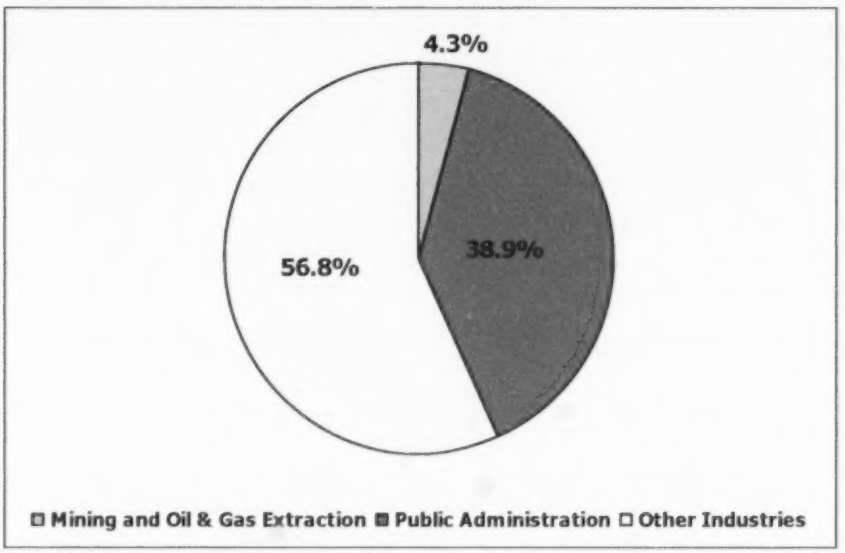
Source: Department of Economic Development; Statistics Canada; International Monetary Fund

Growth in the private sector has driven much of the GDP gains over the past 10 years. A growing mining sector has been a primary contributor to recent economic growth. Prior to the commencement of production from the Minto mine in late 2007, Yukon had no major mining operations since the closure of the Faro mine in 1998. With the addition of the Bellekeno and Wolverine mines the territory has had production from three mines in recent history.

Exploration activities have also contributed to recent economic growth. Investment in mineral exploration and deposit appraisal grew from a low of $7.4 million in 2002 to a peak of $331.7 million in 2011.

In 2002, the private sector is estimated to have accounted for about 57 per cent of Yukon's real GDP, with the public sector at almost 39 per cent. Mining and oil and gas extraction accounted for just over four per cent of the local economy.

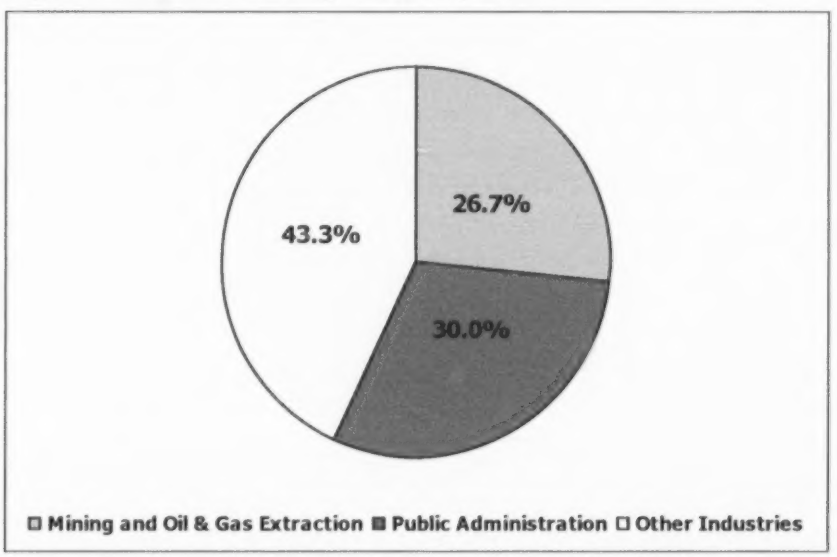
Figure 3 – Real GDP by Industry 2002



Source: Department of Economic Development; Statistics Canada

By 2012, the contribution of the private sector increased to 70 per cent of Yukon's real GDP, with significant growth in the mining and oil and gas component, which is now estimated to account for almost 27 per cent of total real GDP.

Figure 4 – Real GDP by Industry 2012



Source: Department of Economic Development; Statistics Canada

Looking at the short-term outlook, Yukon's economy is expected to post further economic growth but with the expectations for 2013 and 2014 being very different.

For 2013 GDP is expected to grow 0.9 per cent, which would represent the weakest growth in Yukon in recent history. Increased mineral production is anticipated to account for the GDP growth in 2013, but production gains are expected to be below expectations earlier in the year due to lower than anticipated production from the Bellekeno and Wolverine mines (see Mining discussion for further details).

For 2014 GDP growth of 8.8 per cent is anticipated. Combined higher production from Yukon's three existing mines is anticipated to drive gains in 2014. The commencement of construction activities related to the FH Collins School, continued development of the Whistlebend subdivision along with expected development expenditures related to the Eagle Gold project are also expected to provide positive contributions to growth in 2014.

Outlook for GDP

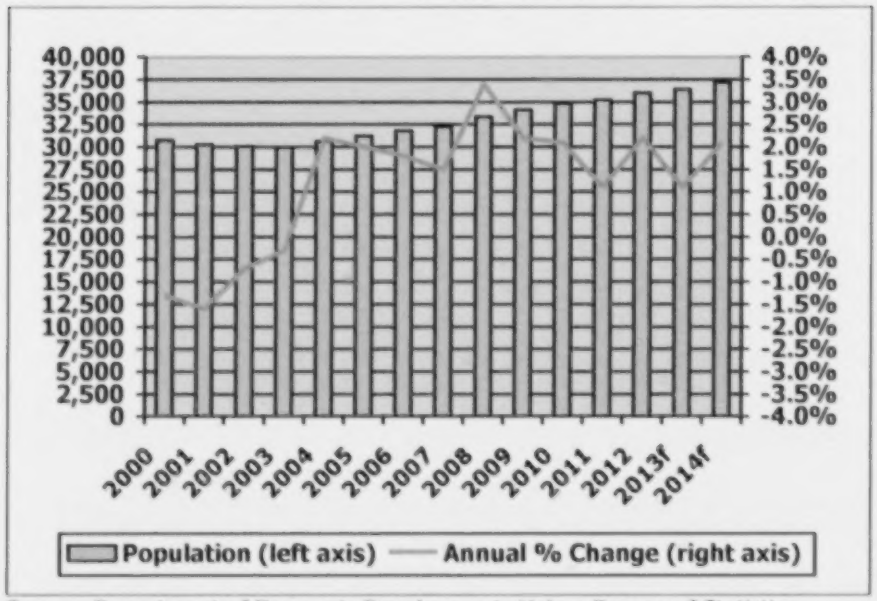
- Even in light of difficulties in the mining sector, the current expectation is for Yukon's GDP to post growth for the tenth consecutive year in 2013.
- The expectation of higher mineral production at current producing mines and expenditures related to mine development and other construction activity are forecast to contribute to GDP growth of 8.8 per cent in 2014.

Population

Like GDP, population in Yukon is currently in the midst of a period of growth. Increases in 2012 marked the ninth consecutive year of population gains for Yukon, with the average annual population in 2012 estimated by the Yukon Bureau of Statistics at 36,023, the highest average population ever recorded.[4]

[4] Accurate population estimates are not available for the time of the Klondike Gold Rush.

Figure 5 – Yukon Average Annual Population



Source: Department of Economic Development; Yukon Bureau of Statistics

In 1997 Yukon's average annual population reached a then record of 33,519. Following the final closure of the Faro mine in 1998, Yukon experienced six consecutive years of declining population which saw the population fall just below 30,000 in 2003. Growing interest in Yukon mineral resources saw exploration spending begin to grow in 2003, marking the beginning of a period of strong exploration spending that continued into the next decade. The decision to move forward with the development of the Minto mine was another sign of the growing activity in Yukon's mining sector and of an improving economic picture. Yukon's population would reverse the downward trend starting in 2004 with growth in that year marking the first of nine consecutive years of increases.

As noted in Figure 5 the current expectation is for further population growth in the near-term with gains of 1.1 per cent and 2.1 per cent expected for 2013 and 2014 respectively. Yukon's average annual population is expected to exceed 37,000 in 2014.

While population growth is occurring throughout the territory, Whitehorse has seen the strongest growth in recent years. Whitehorse accounts for over 75 per cent of Yukon's total population. As a goods and services hub for other Yukon communities and also for the local mining industry, Whitehorse should continue to account for the majority of the population growth in the short-term. The expectation is that Whitehorse's population will grow to over 28,000 by 2014.

Outlook for Population

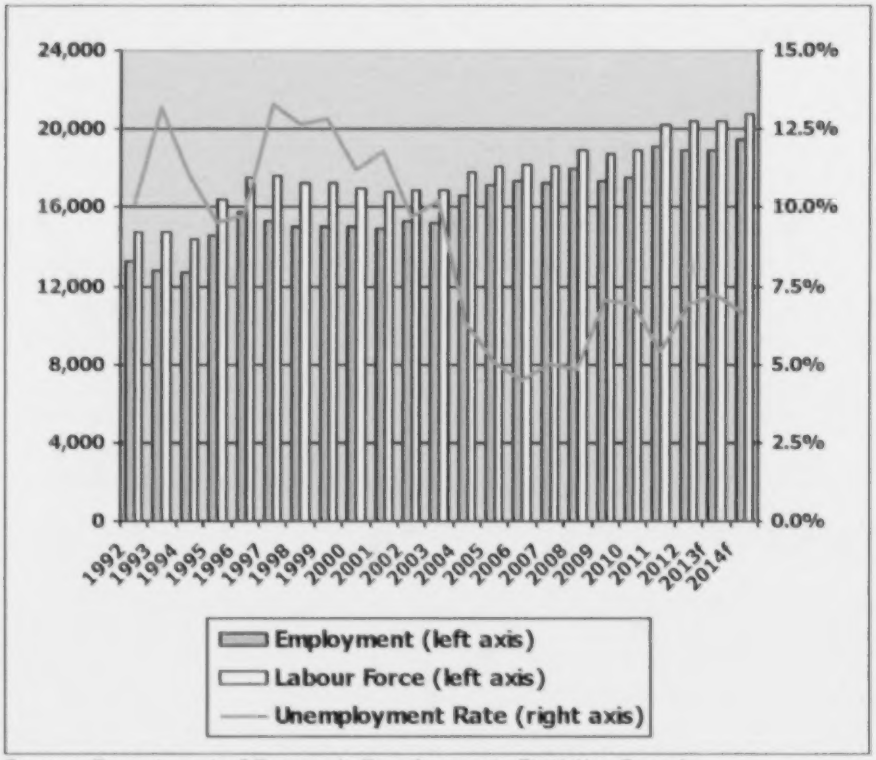
- The expectation is for Yukon's population to continue to grow in 2013 and 2014, with annual growth of 1.1 per cent and 2.1 per cent respectively.
- Yukon's average annual population is expected to exceed 37,000 in 2014, with the population of Whitehorse expected to exceed 28,000.

Labour Market

Yukon's growing economy has been reflected in the strong performance of labour market indicators. Recent years have seen Yukon's labour force and employment reach record highs along with an annual unemployment rate that has generally remained low.

With the decline in the local mining sector that included the final closure of the Faro mine, the 1990s were a difficult time for the local labour market and saw Yukon's annual unemployment rate average above 10 per cent for the decade.

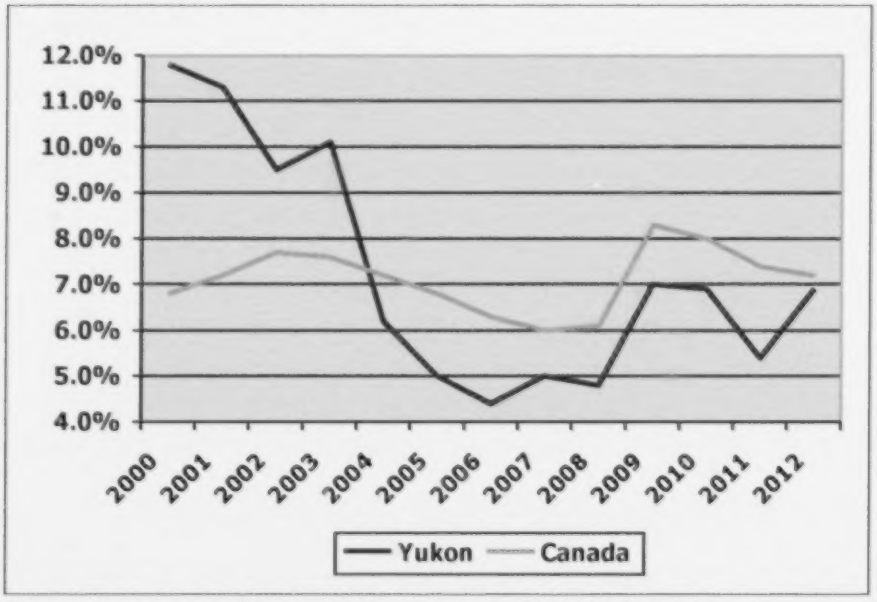
Figure 6 – Key Labour Market Statistics



Source: Department of Economic Development; Statistics Canada

Weakness in Yukon's labour market continued into the early 2000s with the annual unemployment rate remaining above or near 10 per cent until 2003. Since 2003, while variable from year to year, Yukon's annual unemployment rate has generally been trending downward with the rate falling below five per cent in both 2006 and 2008. For the period of 2004 to 2012, Yukon's unemployment rate has averaged below six per cent, lower than the national average of seven per cent reported for the same period (see Figure 7).

Figure 7 – Unemployment Rate – Yukon vs. Canada



Source: Department of Economic Development; Statistics Canada

After falling to below 15,000 in 2001, the average number of individuals employed in Yukon on an annual basis has trended upward with a record of 19,100 recorded in 2011. A growing economy has contributed to growth in employment in a number of areas with gains in both the goods-producing and services-producing industries. Statistics Canada reported Yukon's average employment for 2012 at 18,900, which was up 4,000 from 14,900 in 2001. Of the total increase between 2001 and 2012, it was estimated that employment in goods-producing industries was up 1,300 and employment in services-producing was up 2,700. On an industry basis, the strongest gains since the employment low of 2001 have been recorded in construction (+900), health care & social assistance (+900) and mining and oil & gas extraction (+400). Gains in construction have been primarily associated with developments in the mining sector as well as strong residential development activities in Whitehorse. The employment gains in health care & social assistance are related to Yukon's growing

population (see Figure 5) along with changing demographics in the territory which has seen its average age increasing in recent years.

Statistics Canada noted that employment in mining and oil and gas extraction has increased by 400 since 2001. The majority, if not all, of this increase is related to mining extraction as three new mines have been brought to production. Of note, many of the employment gains in other industries, such as transportation and warehousing (+300), professional and scientific and technical services (+300) and retail trade (+200) are related to the growth in the mining sector and the impacts it has been having on the local economy.

Beyond gains in employment and a declining unemployment rate, growth in Yukon's labour force[5] also points to strength in Yukon's labour market. As was the case with employment, 2001 marked the recent trough for the labour force as it dipped to 16,800. As of 2012, the labour force stood at a record 20,400, up 3,600 from 2001. Like the gains in employment, the largest increases in labour force were recorded in construction (+900), health care & social assistance (+900) and mining and oil & gas extraction (+600).

After posting record highs for total employment in 2011 and total labour force in 2012, Yukon's labour market is expected to continue to perform well in the near-term. The forecast has Yukon employment remaining steady in 2013 and posting a 3.2 per cent gain in 2014. Gains of 600 in construction employment related to mining development will account for the employment gains in 2014.

Like total employment, Yukon's labour force is expected to remain steady in 2013 but post gains in 2014. The current forecast has Yukon's average annual labour force growing to 20,800 in 2014.

The forecast calls for the unemployment rate to increase slightly from 6.9 per cent in 2012 to 7.2 per cent in 2013. The unemployment rate is expected to decrease in 2014, averaging 6.6 per cent for the year. Strong gains in construction employment in 2014 account for the forecasted decline in the unemployment rate.

[5]The labour force is the summation of the number of individuals that are employed plus the number of individuals that are unemployed but are available for work and are actively seeking employment.

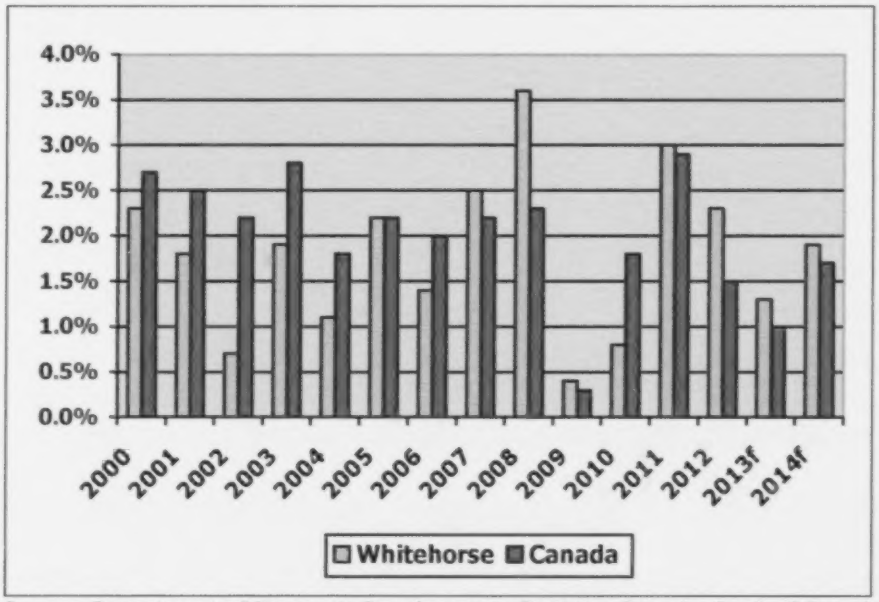
Outlook for the Labour Market

- Yukon's labour market is expected to continue to perform well:
  - Total employment to remain steady in 2013 followed by a 3.2 per cent gain in 2014;
  - Total labour force to remain steady in 2013 followed by a 2.0 per cent gain in 2014; and
  - Following a slight increase in the unemployment rate in 2013, the current forecast is expected to average 6.6 per cent in 2014.

Consumer Price Index

For the period 2000 to 2012, annual growth in the Whitehorse Consumer Price Index (CPI)[6] averaged about 1.8 per cent which was below the 2.1 per cent average growth for the CPI for Canada as a whole over the same period. During the period 2000 to 2012, the average annual CPI growth for both Whitehorse and Canada is generally representative of modest price changes.

Figure 8 – Change in Consumer Price Index – Whitehorse vs. Canada



Source: Department of Economic Development; Statistics Canada; Bank of Canada

[6] Consumer Price Index data is only available in Yukon for Whitehorse.

Several components of the Whitehorse CPI have growth rates that exceed the overall average growth rate of 1.8 per cent for the 2000 to 2012 period. Among the areas that have reported the highest average growth over the period and have been key drivers of CPI growth including Gasoline, Energy, and Shelter, which were up 5.7 per cent, 5.4 per cent and 3.0 per cent respectively (see Table 1).

Table 1 – CPI Growth Rates, Whitehorse and Canada

	Whitehorse			Canada		
	Average – 2000 to 2012	High Growth Rate (Annual)	Low Growth Rate (Annual)	Average – 2000 to 2012	High Growth Rate (Annual)	Low Growth Rate (Annual)
All-items, CPI	**1.8%**	**3.6%**	**0.4%**	**2.1%**	**2.9%**	**0.3%**
Food	2.0%	4.6%	0.0%	2.7%	4.9%	1.4%
Shelter	3.0%	8.4%	-1.3%	2.5%	4.4%	-0.3%
Household operations, furnishings and equipment	0.6%	2.6%	-1.5%	1.3%	2.6%	0.5%
Clothing and footwear	0.0%	2.5%	-3.9%	-0.6%	0.4%	-2.0%
Transportation	2.4%	5.0%	-5.0%	2.6%	6.4%	-5.4%
Gasoline	5.7%	20.1%	-20.0%	6.5%	21.9%	-17.5%
Health and personal care	1.2%	4.2%	-2.2%	1.7%	3.0%	1.1%
Recreation, education and reading	-0.1%	1.5%	-2.3%	0.9%	2.4%	-0.3%
Alcoholic beverages and tobacco products	4.2%	12.2%	0.6%	4.7%	17.6%	1.5%
All-items CPI excluding food and energy	1.4%	2.4%	-0.1%	1.6%	2.8%	1.1%
All-items CPI excluding energy	1.5%	2.7%	0.1%	1.9%	2.8%	1.3%
Energy	5.4%	16.8%	-18.4%	5.1%	16.2%	-13.5%
Goods	1.4%	3.4%	-2.4%	1.6%	3.4%	-1.6%
Services	2.4%	4.8%	0.5%	2.6%	3.6%	

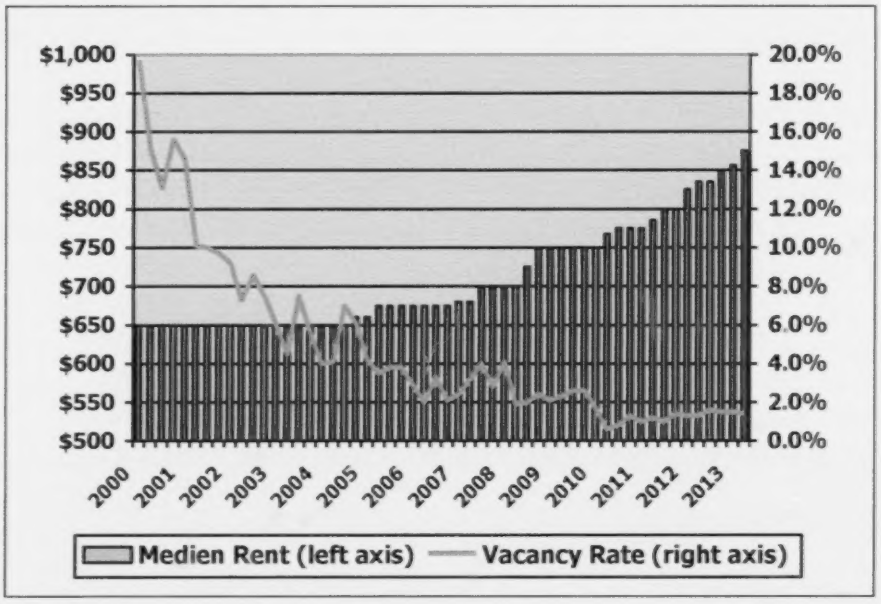
Source: Department of Economic Development; Statistics Canada

Increases in Gasoline, Energy and Shelter were partly a reflection of a significant increase in the price of crude oil during the 2000 to 2012 period. Oil prices tripled from

an average of US$30.38 per barrel in 2000 to US$94.05 per barrel in 2012.[7] While strong growth in crude oil prices have been noted since 2000, prices have also been quite variable with prices by the end of 2008 near US$30 per barrel after approaching US$150 per barrel in mid-2008. At the time of writing, oil prices were approximately US$107 per barrel.

In the case of the Shelter component, growth in recent years has also been driven in large part by higher rental and housing costs in Whitehorse. After remaining stable at $650 for much of the last decade, median rents in Whitehorse reached $700 in the fall of 2007. On an annual basis median rents in Whitehorse have increased by 30.8 per cent in the past ten years, rising to $850 in December 2012 from $650 in December 2003. The median rent in Whitehorse in June 2013, the latest data available, was $875 which represented the highest value ever recorded.[8]

Figure 9 – Whitehorse Median Rent and Vacancy Rate[9]



[7] "Cushing, OK WTI Spot Price FOB (Dollars per Barrel)". U.S. Energy Information Administration. http://www.eia.gov/dnav/pet/hist/LeafHandler.ashx?n=pet&s=rwtc&f=a.

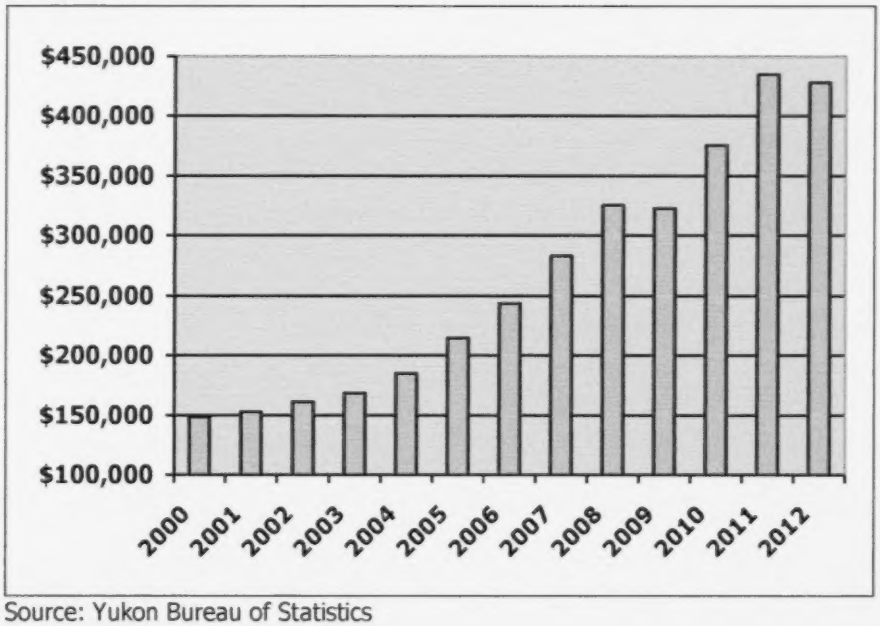
[8] "Yukon Rent Survey, (June 2013)". Yukon Bureau of Statistics. http://www.eco.gov.yk.ca/stats/pdf/rent_Jun13.pdf.

[9] In the fall of 2011, the Yukon Rent Survey coverage was expanded to include any building with three or more rental units. Prior to 2012, buildings with less than four units were excluded from the survey. While the added 3-unit buildings comprise less than five percent of all units in the survey, figures prior to 2012 are not strictly comparable to subsequent numbers. Additionally, in the process of this coverage expansion, a number of buildings with four or more units were also discovered. The addition of all of these buildings increased the total number of units in the survey by about 20 per cent.

Source: Yukon Bureau of Statistics

Recent years have also seen a strong run-up in housing prices in Whitehorse contributing to growth in the Shelter component of the Whitehorse CPI. The annual average sales price for a single detached house has increased dramatically from the early 2000s and has posted significant growth in recent years, with price increasing to a record average of $434,700 in 2011. While the average sales price for a single detached house price fell in 2012 to $428,100, it was still the second highest value on record, 51 per cent higher than the price only five years ago (2007) and almost three times the 2000 average sale price of just over $148,000.

Figure 10 – Average Annual Value of Single Detached House Sale, Whitehorse



Source: Yukon Bureau of Statistics

While a much smaller overall contributor to the growth in CPI in recent years, the Alcoholic Beverages and Tobacco Products component posted strong average annual growth of 4.2 per cent during the 2000 to 2012 period. Most of this change reflects increasing taxation of these products.

Looking to the near-term, growth in the CPI for Whitehorse is expected to be below the 2012 growth rate and to exceed the national average in both 2013 and 2014. Current expectations have Whitehorse's CPI growing by 1.3 per cent in 2013 and 1.9 per cent in

2014. This is above the expectations of the Bank of Canada for growth in the national CPI of 1.0 per cent and 1.7 per cent in 2013 and 2014 respectively.[10]

Outlook for CPI

- Growth in CPI for Whitehorse is expected to average 1.3 per cent in 2013 and 1.9 per cent in 2014.

Economic Sectors

Mining

Yukon's mining industry has a long and varied history which dates back to the Klondike Gold Rush of the late 1800s and early 1900s. Over the last 100 years, mining's importance to Yukon's economy has ranged from being the primary private sector driver during the peak of Faro production, to low levels of mining activity when small exploration projects and small placer gold mining operations accounted for virtually all mining activity in the territory.

Following the final closure of the Faro lead-zinc mine in January 1998, Yukon's mining industry entered a period of contraction. By 2002 there were no operating hard-rock mines in Yukon, mineral exploration spending had declined steeply and placer gold production had fallen to a 23-year low.[11] The total value of mineral production in the territory fell from $225 million in 1997 to less than $34 million in 2003.[12]

More recently, Yukon's mining sector has experienced record high exploration expenditures and strong development expenditures. In addition three new mines have gone into production. Several discoveries of the 1980s and 1990s have proceeded to deposit appraisal and development over the last decade. In terms of exploration, it is estimated that over $1.3 billion in exploration and deposit appraisal spending occurred in Yukon during the 2002 to 2012 period.[13]

With activity taking place in all areas of the mining life-cycle, the mining sector has contributed to growth in various areas of Yukon's economy. Potential for further mining

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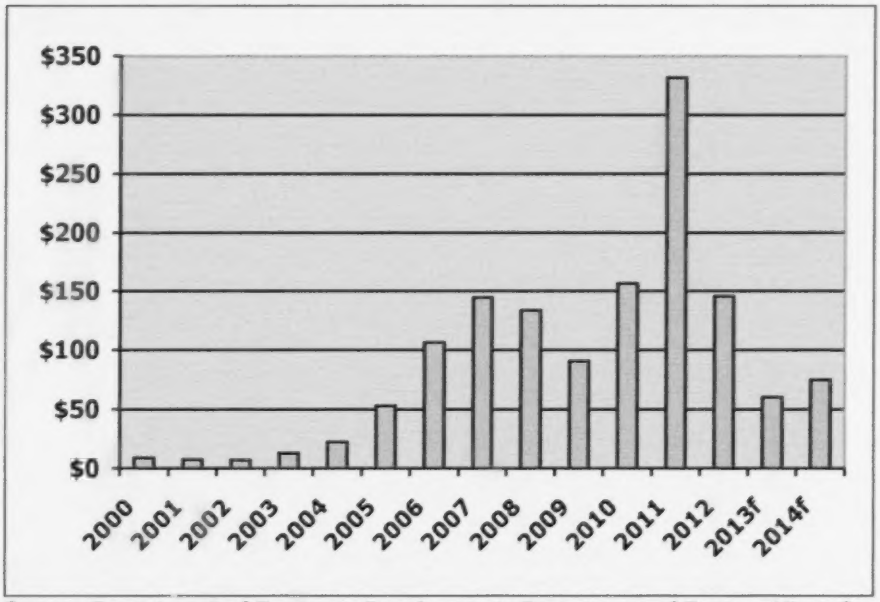
[10] "Monetary Policy Report - July 2013". Bank of Canada. http://www.bankofcanada.ca/2013/07/publications/periodicals/mpr/mpr-2013-07-17/.
[11] Taggart, Malcolm. "Yukon Mining Sector Profile: Supporting Material - Yukon Mining Sector Overview". (2013).
[12] "Mineral Production of Canada – Annual Statistics". Natural Resources Canada. http://sead.nrcan.gc.ca/prod-prod/ann-ann-eng.aspx.
[13] "Mineral Exploration – Annual Statistics". Natural Resources Canada. http://sead.nrcan.gc.ca/expl-expl/sta-sta-eng.aspx.

developments in the coming years bodes well for the mining sector to continue to be a significant contributor to Yukon's economy.

Mineral Exploration

Without exploration the mineral resources that are developed into producing mines would likely not be discovered. Yukon has enjoyed several years of strong exploration activity which has been reflected in the recent high levels of annual exploration spending.

Figure 11 – Mineral Exploration Expenditures ($ millions)



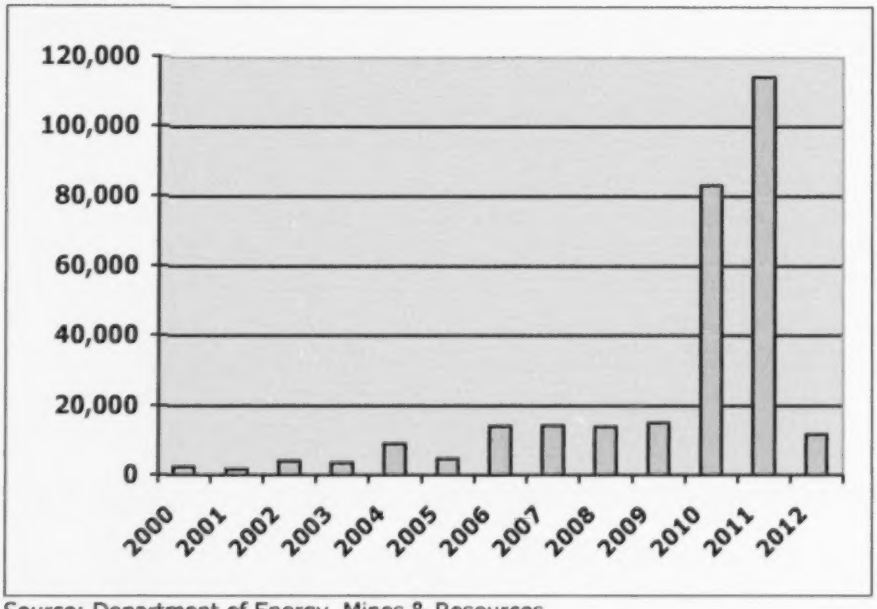
Source: Department of Economic Development; Department of Energy, Mines & Resources; Natural Resources Canada

Over $330 million in exploration spending in 2011 represents an all-time high for Yukon. While the near $150 million in exploration spending estimated for 2012 was less than half of the estimated spending in 2011, it represents the third highest level on record. Recent exploration activities have been focused very much on precious metals, primarily gold. In 2012 exploration for gold accounted for 69 per cent of all exploration expenditures, well ahead of zinc-lead (11 per cent), silver (9 per cent), nickel-platinum (7 per cent) and copper (4 per cent).

Interest in Yukon resources has also been reflected in the high level of claims staked in the last few years. In 2011, over 114,000 new quartz mining claims were staked, 38 per

cent higher than the previous record high of just over 83,000 recorded in the previous year.

Figure 12 – Quartz Claims Staking



Source: Department of Energy, Mines & Resources

While staking in Yukon declined sharply in 2012 to below 12,000, the number of claims in good standing remained at an all-time high of near 255,000 (claims in good standing stood at about 50,000 from 1982 to 2006).

Looking to the near-term expectations of weakness in global factors, such as world commodity prices and capital markets, are anticipated to contribute to less exploration activity in Yukon in the next couple of years.

With many mining companies, especially smaller, junior mining companies, having difficulty raising financing for property assessment and project development, coupled with a less robust outlook for many mineral prices, the near-term prospects for exploration spending have been dampened. While subject to significant uncertainty current expectations have exploration spending in 2013 and 2014 at about $60 million and $75 million respectively. These forecasts would represent the lowest annual levels of exploration expenditures since the mid-2000s.

With just over 1,300 claims staked in the first seven months of 2013, the annual level of claims staking in 2013 is expected to fall below 10,000 for the first time since 2005. While down on an annual basis, the current high number of claims in good standing

indicates that companies have not yet begun to significantly consolidate their holdings but it is expected that some consolidation and reduction in the number of claims in good standing will take place in 2013.[14]

Mining Development

Yukon has seen the development of three mines in recent years.

The Minto mine, which produces copper, gold and silver, saw the majority of its development work completed in 2006 and 2007, with commercial production achieved in October 2007.[15] The project operator, Capstone Mining Corporation, estimated development costs of phase one of the project at about $100 million.[16] Expansions to the project since 2007 have seen total capital costs associated with the project more than double the costs associated with initial development of the project.

Following the acquisition of the Keno property in early 2006, Alexco Resources began exploration work at the old Bellekeno mine. Construction of the new mine and mill was completed in the fall of 2010 at an estimated cost of $61 million.[17] In January 2011 Alexco announced that the operation had achieved full commercial production at the mill.[18] While silver mining is the primary focus of the Bellekeno operation, lead, zinc and gold are also produced.

The most recent mine to be developed is Yukon Zinc Corporation's Wolverine mine (zinc, silver, copper, lead, gold). In 2008 Jinduicheng Molybdenum Group Co. Ltd, a state-owned company from China, acquired Yukon Zinc Corporation as well as its Wolverine deposit. Mine and mill construction proceeded in 2009 with the mill commissioned in late 2010 and limited production recorded in late 2010. Yukon Zinc Corporation noted the achievement of commercial production[19] in the first quarter of

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[14] "Yukon Geological Survey, Yukon Hardrock Mining - Development and Exploration Overview, (2012)". Department of Energy, Mines & Resources. http://www.geology.gov.yk.ca/pdf/yeg_overview_2012_web.pdf.

[15] "Minto Operations". Capstone Mining Corp. http://capstonemining.com/s/minto.asp?ReportID=589527.

[16] "Capstone Mining Corp – Minto Mine Project". JDS Energy & Mining Inc. http://jdsmining.ca/en/projects/country/capstone-mining-corp-minto-mine-project/.

[17] "Bellekeno Mine Description". Alexco Resource Corp. http://www.alexcoresource.com/s/bellekeno.asp?ReportID=511132.

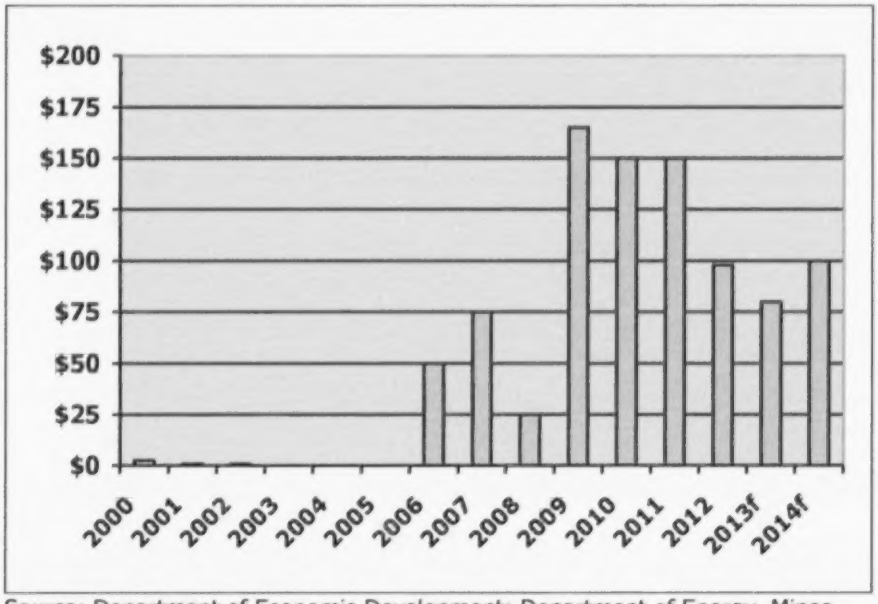
[18] "Alexco achieves commercial production at Bellekeno". Alexco Resources Corp. http://www.alexcoresource.com/s/news.asp?ReportID=510305.

[19] Defined as 60 per cent of production capacity or 1,020 tonnes per day.

2012 and full design capacity in the first quarter of 2013.[20] Between 2009 and 2012, Yukon Zinc's Wolverine Mine construction and capital expenditures were estimated to be in excess of $400 Million.[21]

The development of the three operating mines resulted in strong spending in recent years. Development activities associated with current operating mines resulted in estimated expenditures of at least $150 million annually for the period 2009 to 2011 and over $700 million in development expenditures from 2006 to 2012.

Figure 13 – Mineral Development Expenditures ($ millions)



Source: Department of Economic Development; Department of Energy, Mines & Resources

After an extended period of generally positive news for Yukon's mining sector in terms of project development, recent weakness in global mineral prices and concerns about future mineral demand have negatively impacted the development timetables of Yukon projects.

Recently Alexco Resources had been completing work to prepare the Onek mine to go into production in 2013. The Onek mine would make use of Bellekeno's mill facilities to

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[20] "Yukon Zinc Achieves Full Design Capacity At Wolverine Mine." Yukon Zinc Corp. http://www.yukonzinc.com/documents/NewsRelease-YukonZincAchievesFullDesignCapacityatWolverineMine-May232013.pdf

[21] Personal Communication – email, Shae Dalphond, Community Relations Manager, Yukon Zinc Corporation, (May 28, 2012).

process its ore. While Onek is essentially ready to go into production, commissioning of the mine has been deferred until metal prices, particularly zinc and silver, return to levels that were recorded in 2012. Alexco Resources is also looking to develop another mine in the area, the Lucky Queen, which, like Onek, would use existing facilities at the Bellekeno mine site. Currently the Lucky Queen mine remains subject to regulatory approval of an amended waste rock management plan, and once received, development decisions will be made in light of the prevailing price environment.[22]

Recent weakness in commodity prices and the associated difficulty obtaining financing for project development has also impacted the development plans of Victoria Gold Corporation's Eagle Gold project. The project proponent noted in a news release from May 6, 2013 that "equity markets remain seriously challenged and have resulted in a severely undervalued share price relative to the project value."[23] Because of the current difficulty raising capital for project development, Victoria Gold Corporation's board of directors and management determined that an equity raise to support major on-site construction activity in 2013 was not in the best interest of shareholders and that development of the Eagle Gold project would not commence in 2013. The proponent did indicate that it would continue to work to ensure that the project would be in a position to facilitate a quick and efficient site mobilization in 2014.[24]

With copper prices faring somewhat better than many metals recently, Capstone Mining Corporation has indicated that it will be continuing with its expansion of underground operations at the Minto mine in 2013. Estimates have Capstone Mining Corporation spending nearly $50 million on development in 2013 which would account for more than half of all the mining development spending expected for the year.

If global commodity markets improve and financing issues for the mining sector ease it could positively impact development timetables for Yukon projects. In the short-term the expectation is for a delay in the commencement of production from the Onek mine and a postponement of development decisions related to the Lucky Queen and Eagle Gold mines. This has seen downward revisions in the forecasts of development spending expected for 2013 and 2014 and will have a negative impact on the expectation for construction related activity in Yukon. It will also negatively impact the

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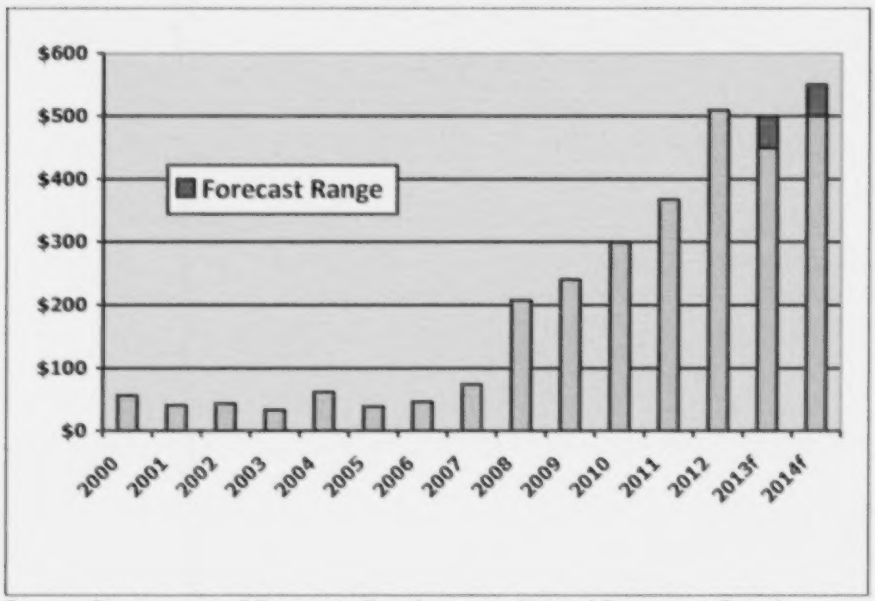
[22] "Alexco Implements Cost Savings Measures". Alexco Resources Corp. http://www.alexcoresource.com/s/news.asp?ReportID=586530.
[23] "Victoria Provides Status Report on Eagle Gold Project". Victoria Gold Corp. http://www.vitgoldcorp.com/s/news_releases.asp?ReportID=583455.
[24] Ibid.

demand for mine development related employment and could have similar impacts on the near-term sales of a variety of local goods and services providers.

Mineral Production

Recent history has seen production commence at three mines in Yukon which has contributed to strong growth in the total value of mineral production in the territory (see Figure 14). Increasing mineral production can have significant impacts on a region's GDP as the mineral production is reflected in increased exports of mineral production (see Figures 3 and 4).

Figure 14 – Value of Mineral Production ($ millions)



Source: Department of Economic Development; Natural Resources Canada

Production activities at the three operating mines in Yukon have contributed to a number of employment opportunities. Until recent announcements of layoffs by the operators of Bellekeno and Wolverine mines (see discussion below), over 900 people had been employed directly with the mine operators and through contractors across the three mine sites. The employment of approximately 500 Yukon residents at the three mine sites has resulted in positive benefits to the local economy.

In the near-term, weakness in metal prices has resulted in the downgrade of expectations of Yukon mineral production for both 2013 and 2014. On June 27, 2013, Yukon Zinc Corp. announced that it would be reducing production at the Wolverine mine by 40 per cent and the project workforce by 30 per cent in an effort to reduce

costs. This move was noted as coming in light of falling zinc and silver prices. Yukon Zinc noted that they would be evaluating the economics and would make a decision in 90 days on whether to move the Wolverine mine back to full production.[25]

Lower prices also contributed to the announcement by Alexco Resources Corp. on July 17, 2013 to suspend operations at the Bellekeno mine. The company noted that the mine and mill operations will be shut down as of September 1, 2013, citing low silver prices and the need to review current operations to ensure optimization of future production costs. The current plan is for the shutdown to last for the winter months with the hope for the project to re-open in 2014 if the silver market has improved and underlying fixed project costs have been reduced.[26] The suspension of operations will impact a number of employees with over 100 people, direct company employees and contract workers, expected to be laid off.

Even in light of recent downgrades to production for the next two years, overall mineral production in Yukon is still expected to be higher in 2013. Higher daily production rates at the Wolverine mine prior to the decision to lower production along with Capstone Mining Corporation's forecast for higher production in 2013 account for the expectation of higher production in 2013. Current expectations are for production for all metals except lead, to increase in 2013.

For 2014 the current forecast is calling for production increases in all metals that are currently produced in the territory. Presently the forecast is for Bellekeno to return to production in 2014, likely at a higher daily rate of production.[27] Capstone Mining Corporation is also expected to see strong gains in production in 2014 with the expectation that underground mining activities will start in late 2013. The mining of Minto's underground resources will positively impact total production in 2014. This forecast also assumes continued production from the Wolverine mine in 2014.

In addition to the mineral production from the current producers, production from the reprocessing of tailings at the Whitehorse Copper mine site to recover magnetite is expected in the short-term. This project, being pursued by Eagle Industrial Minerals Corporation, would see annual magnetite production of 250,000 to 350,000 tonnes for

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[25] "Yukon Zinc Cuts Costs in Uncertain Market Conditions". Yukon Zinc Corp. http://www.yukonzinc.com/documents/NewsRelease-YukonZincCutsCostsinUncertainConditions-June272013.pdf.

[26] "Alexco Reports Increased Silver Production in Second Quarter 2013; Low Silver Prices Prompt Plans for Suspension of Winter Operations". Alexco Resources Corp. http://www.alexcoresource.com/s/news.asp?ReportID=593371.

[27] "Alexco Reports Second Quarter 2013 Financial Results". Alexco Resources Corp. http://www.alexcoresource.com/s/news.asp?ReportID=598036.

six to seven years. The project would operate for six to seven months a year during the snow-free season and employ over 20 people seasonally. It would also involve reclamation of the site for possible future industrial development.[28] The forecast includes production from the Whitehorse Copper project beginning in 2014.

Beyond production at larger mining operations, production of placer gold will continue to contribute to Yukon's mining sector in the near-term. Yukon also has a long history of placer gold mining with about 520 tonnes of placer gold estimated to have been produced in the territory.[29] Recent history, though, has seen annual placer gold production in Yukon falling. Since peaking at 165,571 crude ounces in 1989, placer gold production has been in decline, with production of 51,679 in 2012 representing 31 per cent of production in 1989.[30]

The expectation for the next two years is for placer gold production to remain similar to recent production levels and total 51,000 ounces in each year. There may be some downward risk with placer gold production in the near-term associated with the recent decline in gold prices which, at the time of writing, had retreated by over US$300 per ounce since the beginning of 2013.

In terms of the expected value of mineral production in the short-term, higher production is anticipated to be coupled with somewhat weaker prices for some key mineral prices. Most forecasting agencies are calling for prices for gold and silver to soften in 2013 and 2014 (see Table 2), though they remain above the five-year average.

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[28] "Whitehorse Copper Tailings Reprocessing and Reclamation Project". Department of Energy Mine & Resources. http://www.emr.gov.yk.ca/mining/whse_copper_tailings.html.

[29] "Yukon Placer Mining Industry, 2007-2009". Department of Energy, Mines & Resources. http://ygsftp.gov.yk.ca/publications/yplacer/yuk_plac_min_ind07_09.pdf.

[30] Taggart, Malcolm. "Yukon Mining Sector Profile: Supporting Material - Yukon Mining Sector Overview". (2013).

Table 2 – Mineral Price Forecasts

		Gold (US$/oz.)	Silver (US$/oz.)	Copper (US$/lb.)	Nickel (US$/lb.)	Zinc (US$/lb.)	Lead (US$/lb.)[31]
Average Price (Actual)	2012[32]	$1,668	$31.15	$3.61	$7.96	$0.88	$0.93
World Bank[33]	2013	$1,380	$22.00	$3.22	$6.80	$0.86	$0.95
	2014	$1,360	$22.50	$3.20	$8.26	$0.98	$0.98
BMO Capital Markets[34]	2013	$1,400	$23.20	$3.30	$6.85	$0.86	n/a
	2014	$1,240	$19.50	$3.25	$7.45	$0.88	n/a
TD Economics[35]	2013	$1,380.60	$22.68	$3.34	$7.53	$0.93	n/a
	2014	$1,187.50	$18.00	$3.21	$8.33	$1.11	n/a
CIBC Economics[36]	2013	$1,400	$22.00	$3.30	$7.00	$0.90	n/a
	2014	$1,200	$22.00	$3.75	$8.50	$0.95	n/a
Average Price (Forecast)	2013	$1,390	$22.47	$3.29	$7.05	$0.89	n/a
	2014	$1,247	$20.50	$3.35	$8.14	$0.98	n/a

While prices for gold and silver are expected to be weaker in the near-term, the performance of other metals of interest to Yukon is anticipated to be more variable.

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[31] "Commodity Price Forecast – July 8, 2013". The World Bank. http://siteresources.worldbank.org/INTPROSPECTS/Resources/334934-1304428586133/Price_Forecast_July2013.pdf.
[32] "BMO Commodity Forecasts – August 15, 2013". BMO Capital Markets. http://www.bmonesbittburns.com/economics/goods/current/Default.asp?article=2.
[33] "Commodity Price Forecast – July 8, 2013". The World Bank. http://siteresources.worldbank.org/INTPROSPECTS/Resources/334934-1304428586133/Price_Forecast_July2013.pdf.
[34] "BMO Commodity Forecasts – August 15, 2013". BMO Capital Markets. http://www.bmonesbittburns.com/economics/goods/current/Default.asp?article=2.
[35] "Commodity Price Forecast - July 4, 2013". TD Economics. http://www.td.com/document/PDF/economics/commodity/commodity_july2013.pdf.
[36] "Commodity Forecast: Cloudy Today, Fair Next Year – May 30, 2013". CIBC Economics. http://research.cibcwm.com/economic_public/download/cu_052013.pdf.

Copper and nickel prices are both expected to decline in 2013 before posting growth in 2014. In the case of nickel, following a decline in 2013, prices should recover in 2014 and exceed the 2012 price. For zinc, generally the expectation is for year-over-year price gains in both 2013 and 2014.

While the performance of prices for key minerals for Yukon are mixed, due to anticipated growth in production in both 2013 and 2014 the annual value of mineral production is expected to remain, near or above, $500 million in the next two years. Current expectations are for the value of mineral production to be in the $450-$500 million range in 2013 and $500-$550 million in 2014.

Mining Reclamation

At an estimated total cost of $700 million, reclamation of the Faro mine, a former large scale lead-zinc project, is a significant project for the territory. Ongoing project work includes design of a Closure and Remediation Plan, peer review of the plan and development of a detailed engineering design related to the plan.

Once the design work is completed and approved and permits are authorized by regulators, the major construction phase is expected to take about 15 years to complete. The construction phase will be followed by an adaptation phase of approximately 20-25 years in which all of the various on-site solutions including soil covers, structures, collection and treatment systems will be tested, monitored and improved as required.[37]

The Faro Mine Complex will require active maintenance for many years after the major construction phase is complete. Monitoring and maintenance of engineered soil covers and structures, as well as collection and treatment of contaminated water, will continue for decades, perhaps longer.

The near-term is expected to consist of continued work related to design and planning of the Closure and Remediation Plan as well as associated engineering work. Significant activity related to the construction on-site is unlikely in the next two years so the expectation is that the economic impacts are not likely to be significant in 2013 and 2014.

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[37] "The Project: Next Steps". Faro Mine Reclamation Project. http://www.faromine.ca/project/steps.html.

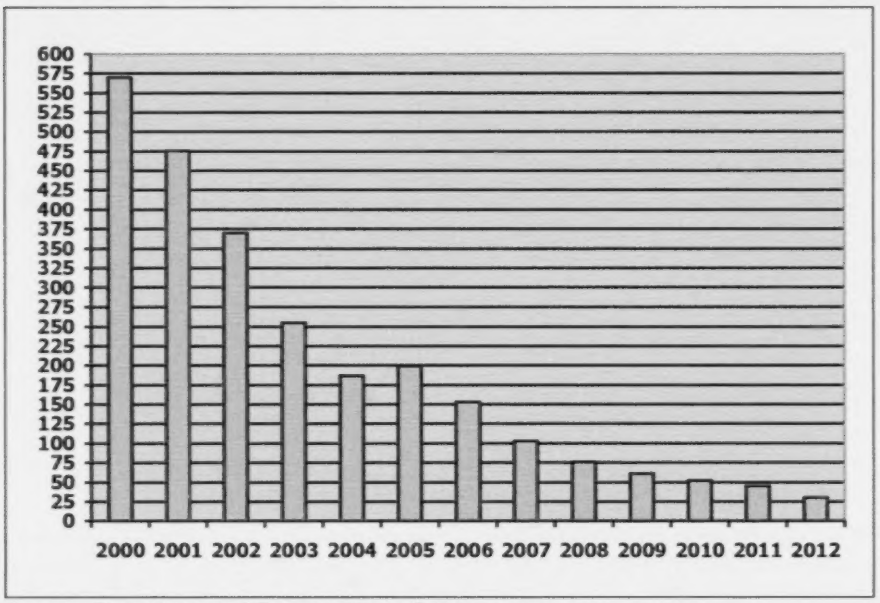
Outlook for Mining

- Expectations have exploration spending in 2013 and 2014 at about $60 million and $75 million, respectively. These forecasts would represent the lowest annual levels of exploration expenditures since the mid-2000s.
    - Claims staking in the next two years is also expected to decline.
- Recent weakness in commodity prices and the associated difficulty obtaining financing for project development have resulted in delays in mine project development in 2013 which is reflected in the lower development expenditures forecast of $80 million.
    - Development expenditures are expected to be upwards of $100 million in 2014.
- While the performance of prices for key minerals for Yukon are mixed, due to anticipated growth in production in both 2013 and 2014 the annual value of mineral production is expected to remain, near or above, $500 million in the next two years. Current expectations are for the value of mineral production to be in the $450-$500 million range in 2013 and $500-$550 million in 2014.

Oil and Gas

Yukon's production of natural gas has been on a downward trend since its peak of almost 630 million cubic metres in 1999. Figure 15 illustrates that production from Kotaneelee has been declining dramatically since the late 1990s and early 2000s. Production of 30 million cubic metres in 2012 was only about 5 per cent of the total production recorded in 2000.

Figure 15 – Natural Gas Production (000,000s of Cubic Metres)



Source: Department of Energy, Mines & Resources

With the Kotaneelee field reaching the end of its productive life, activities in the last 10 years have been related to the possibility of developing further natural gas resources in Yukon. For a number of years, the majority of the discussion was related to the development of two proposed northern natural gas pipeline projects – the Alaska Highway Pipeline Project and the Mackenzie Gas Project.

The Alaska Highway Pipeline Project would offer a source of natural gas to the United States' lower 48 states, with gas shipped via a 2,700-kilometre north-south route passing through Yukon connecting to the pipeline network in Alberta. The project would see a significant impact on Yukon-related construction activities in the territory as well as a way to possibly tap into Yukon natural gas resources. Estimates of the development of the pipeline option have been in excess of US$32 billion.[38]

The Mackenzie Gas Project is a proposed $16 billion, 1,200-kilometre natural gas pipeline system along the Mackenzie Valley in the Northwest Territories to connect northern onshore gas fields with North American markets. Development of this pipeline might lend itself to develop and link Yukon natural gas resources to market.[39]

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[38] "The Alaska Pipeline Project Files Open Season Plan With FERC- First in the History of the North Slope". TransCanada Corp. http://www.transcanada.com/news-releases-article.html?id=1109499.

[39] "Overview Mackenzie Natural Gas Pipeline Project". http://www.mackenziegasproject.com/theProject/overview/index.html

The economic rationale of both pipelines appears to have diminished with the development of unconventional shale gas resources in the United States. The addition of the supply of shale gas has reduced the demand for North American natural gas and helped depress natural gas prices. The project proponents for the Alaska Highway Pipeline include TransCanada Pipelines Limited, ExxonMobil, BP PLC, and ConocoPhillips and they are now focusing on the possibility of developing an alternative instate pipeline and liquefied natural gas (LNG) export plant.[40] This project would be focused on the production of LNG that would be targeted for Asian markets that have a growing demand for natural gas products and where natural gas prices are generally much higher than in North America.

The abundance of U.S. shale gas resources, low natural gas prices and cost escalations were all noted by the development partnership group for the Mackenzie Gas Project in April 2012 to put the project on hold.[41] The partnership group that had been looking to develop the project includes the Imperial Oil Ltd. (project lead), Exxon Mobil Corp., ConocoPhillips, Royal Dutch Shell PLC and the Aboriginal Pipeline Group. The partnership has indicated that, while the project is currently on hold, it could be restarted if natural gas prices were to rebound sufficiently so as to improve the viability of the project.

With the development of the Alaska Highway Pipeline and Mackenzie Gas Projects unlikely as near-term projects, discussions have turned to the possibility of tapping local resources as a possible solution for energy supply. Current estimates of onshore potential of 17 trillion cubic feet of gas and 800 million barrels of oil offer a significant resource that Yukon could possibly utilize to meet the growing demand for energy stemming from new mines throughout the territory and base load growth on the electrical grid. As such, there has been more attention focused on looking at local natural gas resources to meet Yukon's current and future energy demands.

There is optimism being generated about the possibility of oil and natural gas development in Yukon that would result from the efforts of Northern Cross (Yukon) Limited to develop resources in the Eagle Plain Basin in northern Yukon. Development of natural gas resources would offer an opportunity for Yukon to reduce its dependency on the importation of petroleum products as well as potentially provide a more cost-

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[40] "Feds dump $47M down Alaska Highway pipeline pit". Yukon News. http://yukon-news.com/news/feds-dump-47m-down-alaska-highway-pipeline-pit

[41] "Imperial Oil Chops Spending Mackenzie Gas Pipeline Project". Insightwest Research. http://www.insightwest.ca/news/gas-insight/imperial-oil-chops-spending-mackenzie-gas-pipeline-project/.

effective option to these petroleum products. A substantial investment from China National Offshore Oil Corporation (CNOOC) International Inc., has supplied Northern Cross with the capital to expend more than $50 million for work on its 15 exploration permits in the Eagle Plain area. Northern Cross has completed a major exploratory drilling program that resulted in the drilling of four wells. Current plans call for an extensive 3-D seismic program, which is currently being assessed by the Yukon Environmental and Socio-economic Assessment Board (YESAB).

The Vuntut Gwitchin Development Corporation (VGDC), on behalf of four northern First Nations with assistance from the Canadian Northern Economic Development Agency (CanNor), is also pursuing options to commercialize Eagle Plain gas. The feasibility study portion of the work has been completed and the VGDC has now moved into the business planning portion of the project.

Yukon Energy Corporation is also assessing the use of natural gas to meet its short-term (five-year) generation requirements and as a transition fuel while it examines the potential development of longer-term renewable energy projects.

Yukon Energy announced a plan in July 2013 to use liquefied natural gas (LNG) for back-up power generation. Yukon Energy would be replacing two back-up diesel generators near the Whitehorse Dam with LNG-burning power plants as well as constructing a fuel storage facility in the area. Costs of the plan are estimated at $34 million with the expectation that the facility would be operational before the end of 2014. The facility would not use local natural gas resources as the LNG would be sourced from Calgary, Alberta.[42]

Yukon Electrical Co. Ltd., in partnership with ATCO Gas and ATCO Energy Solutions, is planning a liquefied natural gas project in Watson Lake, Yukon. The project will convert one of the six diesel-fired electrical generators to a bi-fuel system able to accept natural gas which will be trucked in as LNG from southern B.C. About 50 per cent of the diesel consumed by the generator is expected to be displaced by natural gas equating to a reduction of on-site carbon dioxide emissions of approximately 300 tonnes per year, which is equivalent to permanently removing 60 vehicles from the road annually.[43]

While Yukon holds significant natural gas potential there has been no production from the Kotaneelee gas field since September 2012 due to declining flow pressures, which

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[42] "Yukon Energy defends natural gas plans". Yukon News. http://yukon-news.com/news/yukon-energy-defends-natural-gas-plans/

[43] "Watson Lake LNG project recommended for approval". Whitehorse Star. http://www.whitehorsestar.com/archive/story/watson-lake-lng-project-recommended-for-approval/

has resulted in water build up in the bottom of the producing well. On a positive note, recent acquisitions of working interests in the Kotaneelee field by EFL Overseas Inc. (EFLO) indicates interest in further development of Yukon gas resources. EFLO followed a October 2012 acquisition, which gave the company an almost 54 per cent working interest in the Kotaneelee field,[44] with another acquisition of working in interest in July 2012. EFLO has indicated the intention to acquire up to 65 per cent interest in the Kotaneelee gas field.[45]

Ultimately, the future of the development of local natural gas resources depends very much on natural gas prices which have been depressed for an extended period of time. If prices were to trend upwards during the remainder of 2013 and into 2014 it could result in increased exploration and development efforts thereby improving prospects for Yukon natural gas resources.

Outlook for Oil and Gas

- Additional exploration work is expected by Northern Cross (Yukon) Limited in the Eagle Plain Basin.
- Continued activities by EFL Overseas Inc. related to restarting production in the Kotaneelee field.

Tourism

Tourism has historically been an important contributor to the Yukon economy. Tourism related activities support numerous local jobs and a variety of local goods and service providers including retailers, grocery stores, accommodations providers, restaurants, arts and culture as well as providers of sports and recreational activities. Tourism is also important as it raises the profile of Yukon and provides valuable marketing of the territory. Tourism activities are key to contributing to the diversity of Yukon's economy.

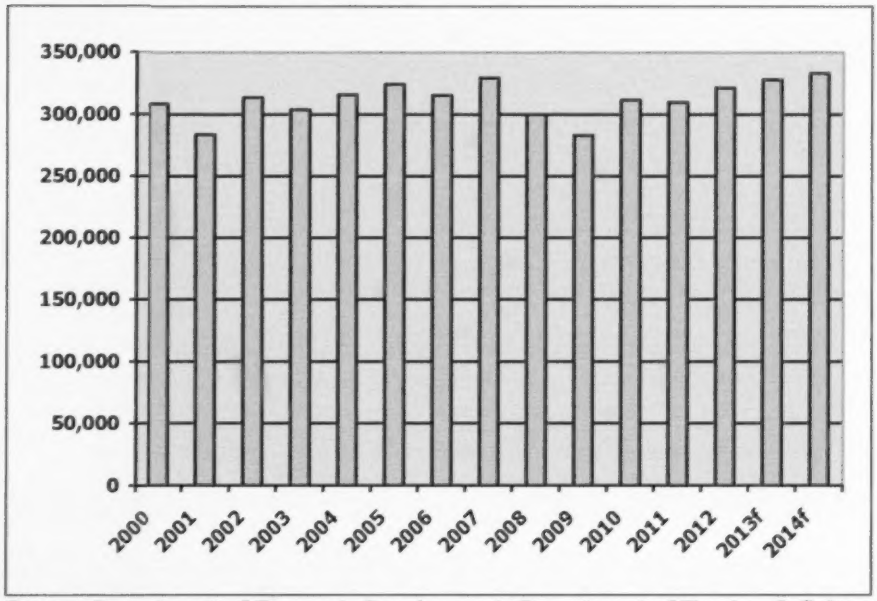
In absence of other metrics, international border crossings are used to characterize the performance of Yukon's tourism sector. Looking at annual border crossings provided by the Department of Tourism & Culture it is noted that, while fluctuating from year to

[44] "EFL Overseas Completes Acquisition of Nahanni's Working Interest in the Kotaneelee". Marketwired. http://www.marketwire.com/press-release/efl-overseas-completes-acquisition-of-nahannis-working-interest-in-the-kotaneelee-otcbb-eflo-1717195.htm

[45] "EFL Overseas Completes Acquisition of Devon's Kotaneelee Assets". Marketwired. http://www.marketwire.com/press-release/efl-overseas-completes-acquisition-of-devons-kotaneelee-assets-otcbb-eflo-1683612.htm

year, crossings have generally been stable in recent years with the annual average number of crossings exceeding 300,000 in the majority of years since 2000.

Figure 16 – Border Crossings



Source: Department of Economic Development; Department of Tourism & Culture

More recently border crossings have recovered from a twenty-year low recorded in 2009, posting three consecutive years above the 2000-2012 average of 309,000. Declines in 2008 and 2009 were related to the global economic downturn and, in particular, weakness in the U.S. economy. Visitation from the U.S. comprises about 70 per cent of all border crossings on an annual basis, and the economic difficulties that were prevalent in the U.S. during that time contributed to declines in visitation to Yukon. The strength of the Canadian dollar versus the U.S. dollar throughout 2009 may have also contributed to some of the weakness that year. A decline in visitation from other countries was also recorded in 2009, with economic issues in many overseas countries likely contributing to the decision to cancel or postpone travel plans.

For 2012 visitation is estimated to have grown by 3.7 per cent over 2011, totalling 321,240. This was the highest number of border crossings since 2007. Visitation from the U.S. continued to account for the majority of border crossings in 2012, with U.S. visitation of 216,008 representing over 67 per cent of total visitation.

By mode of transportation, 2012 saw visitation via motorcoach total 134,282 in 2012, up 9.9 per cent from 2011. Countering some of the gains in motorcoach visitation was a slight decline in visitation via private vehicle, which decreased by 700 to 186,958.

Higher year-over-year prices for fuel likely account for some of the decline in private vehicle traffic in 2012.

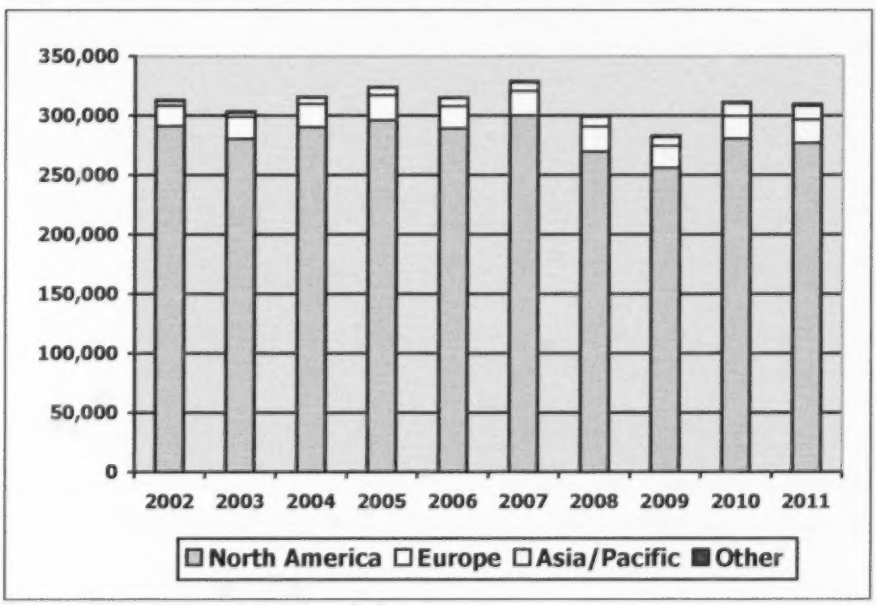
Data for visitation by place of origin indicates that visitation from the U.S. was up 4.7 per cent compared to the previous year, totalling 216,008 in 2012. Gains in 2012 more than recovered all of the losses in U.S. visitation in 2011, which saw 9,737 fewer U.S. visitors.

Non-U.S. visitation in 2012 increased to 105,232, up 1.6 per cent from 2011. Increases in non-U.S. visitation were seen in all areas with visitation from other parts of Canada increasing 4.1 per cent to 27,903 and foreign visitation increasing 1.8 per cent to 33,941.

At the Erik Nielsen Whitehorse International Airport, the total number of passengers arriving and departing increased by 10.1 per cent, or 26,895, for a total of 294,377. The total for 2012 exceeded the previous high recorded in 2011, and it is the fourth consecutive year of increasing passenger volumes at the airport.

A closer look at visitation by place of origin reveals that the majority of visitation originates from North America.

Figure 17 – Border Crossings by Place of Origin



Source: Department of Tourism & Culture

The North American total includes border crossings by U.S. residents, individuals from other parts of Canada, Mexico and Yukon residents. Comprising the majority of the North American total is U.S. visitation, which accounted for just over 70 per cent of the nearly 3.1 million border crossings for the period 2000 to 2012.

While North American residents continue to account for the vast majority of border crossings, border crossing data indicates that visitation from Asia/Pacific has shown strong growth in recent years. After accounting for less than 4,000 border crossings in both 2002 and 2003, residents of regions in Asia accounted for almost 12,000 border crossings in 2011. With Yukon viewed by many international travellers as a viable and enjoyable destination for travel, the expectation is that visitation from non-North American destinations will continue to grow.

Looking to the near-term, visitation to Yukon could be positively impacted by the expected decline in the value of the Canadian dollar versus the U.S. dollar. Following a prolonged period of strength, the Canadian dollar has declined throughout 2013, falling from a close of US$1.015 on Jan 1, 2013 to US$0.9672 on August 15, 2013. Many forecasting agencies are calling for a weaker Canadian dollar relative to the U.S. dollar in both 2013 and 2014. The lower dollar could positively impact visitation from the U.S., as the lower dollar means improved purchasing power for U.S. residents.

While current expectations are for additional gains in border crossings, the uncertain economic global outlook has the potential to negatively impact visitation in the near-term. Questions regarding the economic outlook for the U.S. and Europe remain, which may cast a shadow on travel prospects in the near-term and could negatively impact visitation to Yukon.

A number of forecasters are calling for increases in the price of oil in the next couple of years which could also impact visitation. At the time of writing, BMO Capital Markets was calling for oil to average US$98.00 per barrel in 2013 and US$102.00 per barrel in 2014. The price forecast for 2013 would represent an increase from US$94.20 per barrel in 2012 and would represent the highest annual average since 2008 when oil prices averaged over US$99.00 per barrel. The current forecast of US$102.00 per barrel would mark the first time that oil prices, not adjusted for inflation, would exceed $100 per barrel on an annual basis. Higher oil prices often translate into higher fuel prices which increase the costs of operating a motor vehicle and also the operational costs for airlines. Given this, it is possible higher fuel prices and the subsequent higher costs of travel, could impact visitation to Yukon.

Even though risk factors exist, the near-term outlook for visitation to Yukon remains positive. Current expectations for 2013 are for 328,000 crossings, which represents growth of 2.1 per cent. A further 1.5 per cent growth is expected in 2014, which will bring annual border crossings to 333,000. This would mark the first time annual border crossings for Yukon will exceed 330,000.

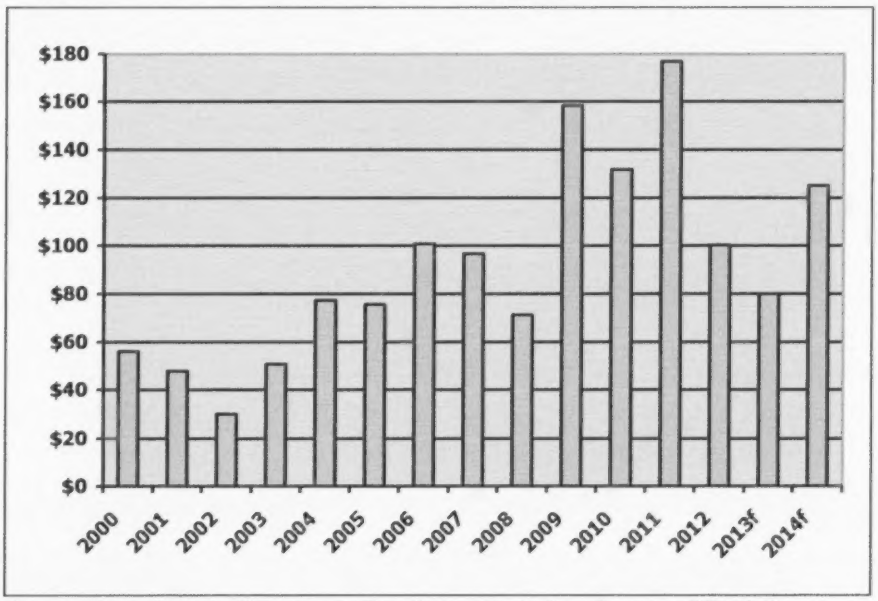
Outlook for Tourism

- Current expectations for 2013 are for 328,000 crossings, which represents growth of 2.1 per cent.
- The 2014 forecast for annual border crossings is for growth of 1.5 per cent to 333,000.

Construction

Yukon's recent strong economic growth has been reflected in a considerable amount of construction activity in the territory. Examination of building permits reveals that recent activity has been strong in both residential and non-residential construction.

Figure 18 – Value of Yukon Building Permits ($ millions)



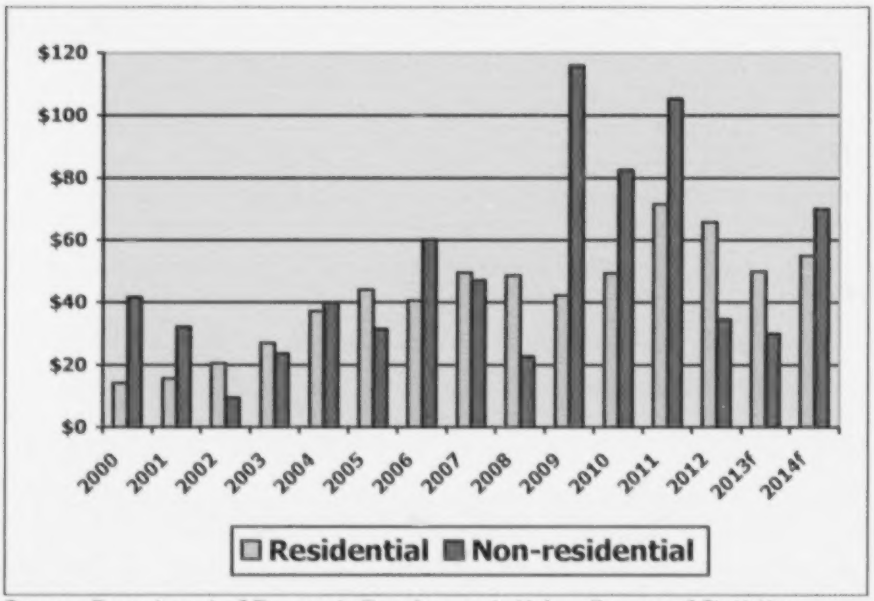
Source: Department of Economic Development; Yukon Bureau of Statistics

Figure 18 illustrates that the value of building permits in recent history is far higher than the values recorded in the first half of the 2000s. A record $176.8 million was recorded in 2011 with this value almost 12 per cent higher than the previous high of

$158.3 million recorded in 2009. Prior to 2006 the annual building permit value for Yukon had never reached $100 million but between 2006 to 2012 building permit values totalled at least $100 million annually in five of seven years.

Strong performance has been noted in both residential and non-residential construction activity. In the record year of 2011, residential permit value accounted for about 40 per cent ($71.5 million) of the total, with non-residential permit value accounting for the remainder ($105.3 million) of the total.

Figure 19 – Value of Yukon Building Permits – Residential vs. Non-residential ($ millions)



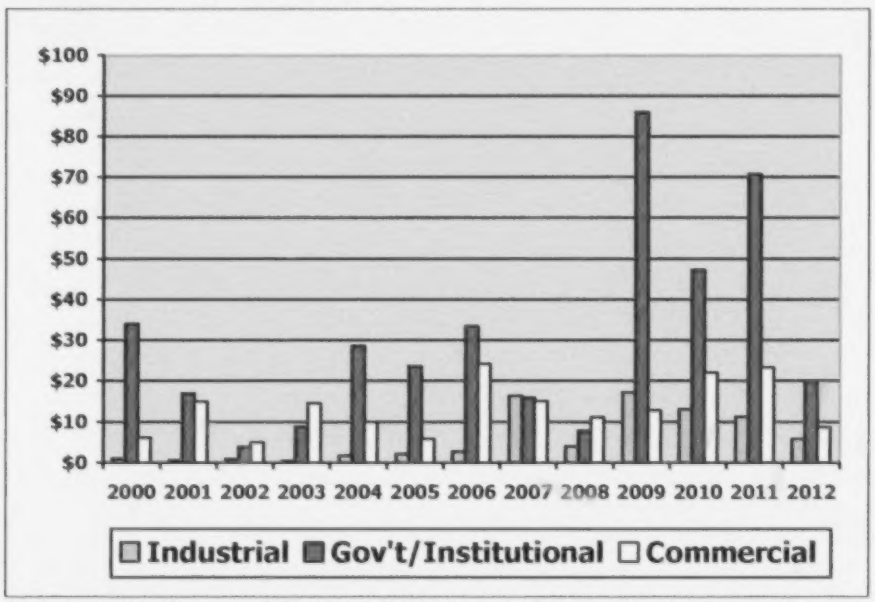
Source: Department of Economic Development; Yukon Bureau of Statistics

Residential construction, particularly in Whitehorse, has recently been very strong. A growing economy, resulting population gains, and a shortage of suitable available residential properties contributed to notable increases in housing prices and rental prices (see Figures 9 and 10). Demand for residential housing was reflected in an increase in the value of residential building permits which, following six consecutive years of permit values between $40 million and $50 million, rose to a record $71.5 million in 2011. This record value was followed by another strong year of $65.7 million in 2012. Recent residential construction has been concentrated in Whitehorse with development of the Whistle Bend subdivision, a neighbourhood envisioned to accommodate 8,000 residents, accounting for much of the spending. Of the record

amount of residential building permits in 2011, over 73 per cent was associated with Whitehorse permits.

Beyond activity related to residential development, non-residential building permit value has also been very strong.

Figure 20 – Value of Non-residential Building Permits by Permit Type ($ millions)



Source: Yukon Bureau of Statistics; Department of Economic Development

As illustrated in Figure 20, generally all sub-components of non-residential building permit value have been strong in recent years. Leading the way has been significant expenditures related to institutional projects, which saw very high levels of spending in the 2009 to 2011 period and accounted for over 67 per cent of all non-residential building permits during that time. Higher institutional spending during this time is partly due to stimulus funding provided by the federal government to combat potential economic headwinds associated with the 2008 global economic downturn. Significant institutional projects undertaken or underway during the 2009 to 2011 period include:

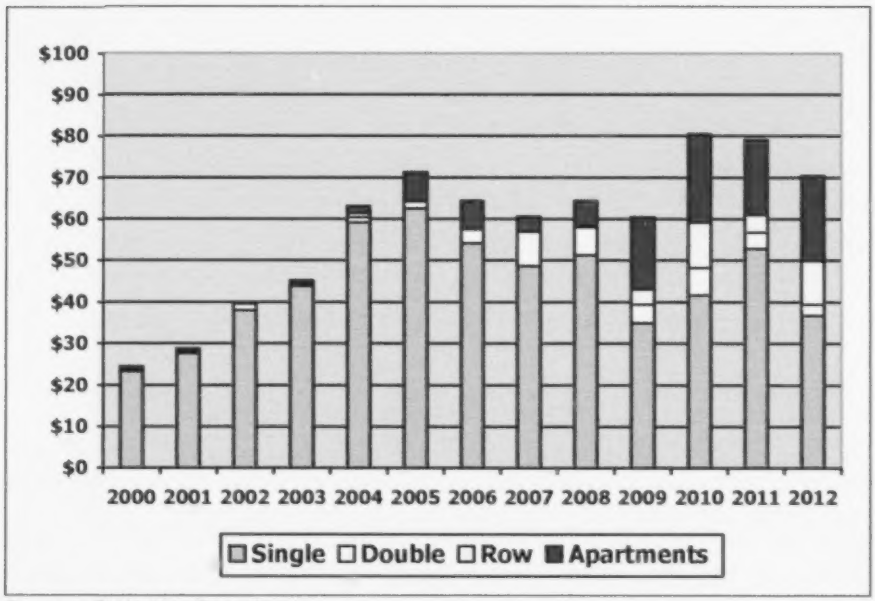
- Hospital developments in Watson Lake and Dawson City;
- Wastewater treatment facility and district heating system in Dawson City;
- Wastewater treatment facilities in Carcross and Ross River;
- Whitehorse Correctional Centre;
- Yukon Hospital Corporation Residence and Health Services Building in Whitehorse;

- City of Whitehorse Public Safety Building;
- Expansion of the Erik Nielsen International Airport in Whitehorse; and
- Development of the Kwanlin Dün Cultural Centre in Whitehorse and the Champagne Aishihik Cultural Centre in Haines Junction.

While accounting for a much smaller portion of the total building permits, industrial and commercial building permits did total almost $100 million in permit value for the period 2009 to 2011. It should be noted that the value of building permits is an imperfect measurement of activity related to industrial development such as mine development, as these developments do not require building permits.

Beyond building permits, the high level of activity in the construction sector in recent years is also reflected in the data for investment in residential and non-residential building construction. Figure 21 notes that annual investment in residential construction since 2010 has been well above the annual average spend of about $52 million for the period 2000 to 2009. As noted in Figure 21, strong investment in 'apartments', reflecting mainly construction of condominiums, has been a primary contributor to residential investment in recent years. Construction of 'row' style housing has also been recently higher, especially in 2010 and 2012.

Figure 21 – Investment in New Housing Construction – By Dwelling Type (2007$ Millions)[46],[47]



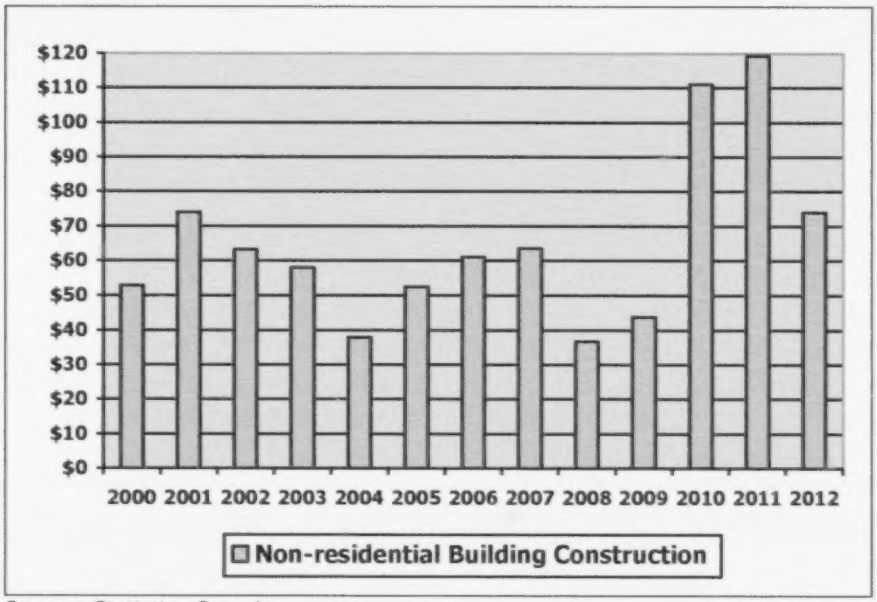
Source: Statistics Canada

As illustrated by Figure 22, investment in non-residential construction has also been strong in the period 2010 to 2012. Annual investment in non-residential construction has averaged over $101 million for 2010 to 2012, almost double the annual average of $54 million for the period 2000 to 2009.

[46] "Cansim Table 026-0017 – Investment in New Housing Construction, by Type of Dwellings, Canada, provinces and territories". Statistics Canada. http://www5.statcan.gc.ca/cansim/a26?lang=eng&retrLang=eng&id=0260017&pattern=investment+in+new+housing&tabMode=dataTable&srchLan=-1&p1=1&p2=50

[47] Data represents investment in new residential building construction for the four principal dwelling types and excludes construction investment for cottages, mobile homes, conversions, renovation and acquisition costs.

Figure 22 – Investment in Non-residential Construction (2007$ Millions)[48]



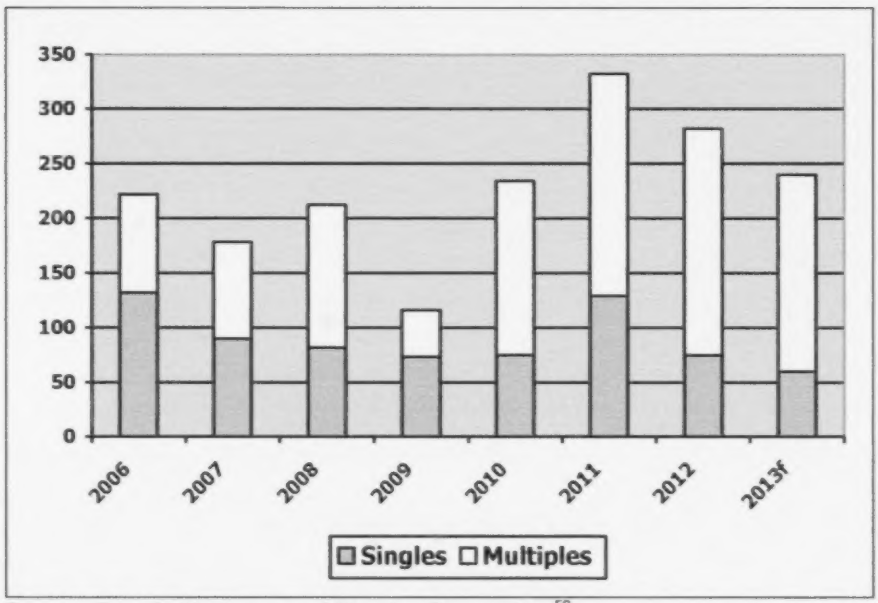
Source: Statistics Canada

Housing start data for Whitehorse also reflect the high level of economic activity in the territory in recent years. The Canadian Mortgage & Housing Corporation (CMHC) noted that there were 282 housing starts in Whitehorse in 2012, down from 332 in 2011.[49] As was noted in the figures for residential permits and residential investment, activity in terms of residential development in recent years has been high. The same pattern holds when examining the recent performance of housing starts for Whitehorse. As noted in Figure 23, housing starts in Whitehorse for the period 2010 to 2012 reflect the recent investments in residential construction that have occurred.

[48] "Cansim Table 026-0016 – Investment in non-residential building construction by type of building, province and census metropolitan area". Statistics Canada. http://www5.statcan.gc.ca/cansim/a47

[49] "Northern Housing Report, 2013". Canada Mortgage & Housing Corp. http://www.cmhc-schl.gc.ca/odpub/esub/65446/65446_2013_A01.pdf?fr=1377544582229.

Figure 23 – Whitehorse – Housing Starts (Units)



Source: Canada Mortgage and Housing Corporation[50]

Heightened prices in Whitehorse for single-detached housing resulted in many home buyers looking for more affordable options, such as, row housing or a condominium. To meet this demand much of the focus of builders in recent years has been on developing multi-unit properties.

Of the 848 housing starts noted by CMHC for the 2010 to 2012 period, 569 units, or 67 per cent, were multiple developments. Development of 319 new row housing units, accounted for more than half of the development of multiples and almost 38 per cent of all new housing starts in the 2010 to 2012 period. Development of 164 'apartment' units, the majority of those condominiums, comprised much of the remaining multiples built during the 2010 to 2012 period, with the remaining 86 units in the form of semi-detached housing.

Development of single-detached units totalled 279 in the 2010 to 2012 period accounting for a lower percentage of new housing builds than in 2006 and 2007, when single-detached housing accounted for over 50 per cent of all new units.

[50] Personal Communication – email, Pichu Kalyniuk, Market Analyst, Prairie & Territories Market Analysis CMHC (August 20, 2013).

In the next couple of years, expenditures related to further residential construction, in particular the Whistle Bend subdivision, replacement of the F.H. Collins School and development of the Whitehorse Copper and Victoria Gold mines are all expected to contribute to construction activity in Yukon.

Current Government of Yukon estimates have almost $300 million in capital expenditures budgeted for the territory for fiscal year 2013-14.[51] The largest contributors among the budgeted spending include nearly $80 million associated with mining project development; almost $60 million for commercial building construction, with major projects to include the F.H. Collins school construction, replacement of the McDonald Lodge assisted living facility in Dawson City, and the repair of the Ross River recreation centre and arena; over $56 million in road work; $37 million related to civil works; and $30 million in land development, with over $25 million associated with development of the Whistlebend subdivision. In addition, replacement of the Alexander Street Senior's residence in Whitehorse is budgeted at $7 million for 2013-14.

For 2013, building permit value is expected to decline to about $80 million, with declines noted in both residential and non-residential permits. With house listings on the rise, prices levelling off and the expectation of weaker economic growth, housing starts are expected to decline to 240 units in 2013.[52] As has been the trend in recent years, multi-unit starts are expected to account for the majority of total starts, with the expectation of 180 multi-unit starts in 2013.

Permitting related to the F.H. Collins School in Whitehorse, residential construction related to the Whistlebend subdivision and elements related to mine project development are expected to contribute to permit gains in 2014 and Yukon is expected to see total building permit value reach about $125 million.

Outlook for Construction

- For 2013, building permit value is expected to decline to about $80 million, with declines expected in both residential and non-residential permits.
- Housing starts are expected to decline to 240 units in 2013, but still remain above the historic average for annual starts.
- The value of building permits is expected to grow to $125 million

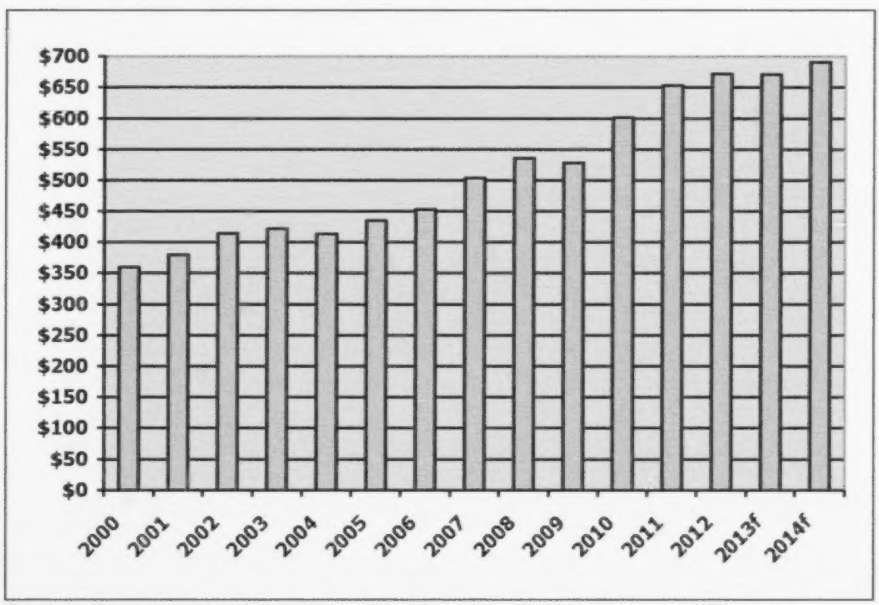
[51] Department of Highways & Public Works
[52] "Northern Housing Report, 2013". Canada Mortgage & Housing Corp. http://www.cmhc-schl.gc.ca/odpub/esub/65446/65446_2013_A01.pdf?fr=1377544582229.

in 2014 with anticipated permitting related to the F.H. Collins School replacement in Whitehorse, continued development of the Whistlebend subdivision and new mine development all contributing to the annual total.

Retail Trade

A growing mining sector, increasing population, strong employment numbers and growing household incomes have all contributed to recent strength in retail sales numbers. Seasonally unadjusted retail sales of over $671 million in 2012 marked a record value for the territory, and the third consecutive year of growth.

Figure 24 – Value of Retail Sales ($ millions)



Source: Department of Economic Development; Yukon Bureau of Statistics

As noted in Figure 24, recent history has seen retail sales generally trending up. A growing population and expanding economy have contributed to some of the gains but recent growth is also in part the result of higher fuel prices related to strong oil prices.

Food and Beverage Stores, the largest segment of retail sales in Yukon at about 30 per cent of total sales, to over $193 million in 2012. At over $108 million in 2012, Gasoline Stations was also a major contributor to overall Yukon retail sales. As noted above, growth in this component was related in part to higher fuel prices in 2012 which contributed to a higher value of fuel sales.

Concerns related to weaker metal prices have created uncertainty in terms of future exploration and development and has contributed to layoffs at two of the three currently producing mines. These events present a risk for the performance of retail sales in the short-term, which is reflected in the current forecast that has the value of retail sales in 2013 essentially on par with 2012. While the expectation is for retail sales to return to growth in 2014, there is some uncertainty currently associated with this forecast, as growth will certainly depend on the performance of the mining sector.

Outlook for Retail Trade

- The current forecast has the value of retail sales in 2013 essentially on par with the estimated $672 million recorded in 2012.
- The expectation is for retail sales to return to growth in 2014, with the current forecast calling for retail sales to total $691 million.
- Risks related to possible continued weakness in metal prices and the impact on Yukon's mining sector present a risk for the performance of retail sales in the short-term.

Key Economic Indicators

Indicator	*2012*	*2013f**	*2013f update*	*2014f*
Population, Prices, Rates				
Population	36,023	36,500	36,419	37,184
CPI Growth Rate^	2.3%	2.0%	1.3%	2.1%
Overnight Rate	1.00%	1.00%	1.00%	1.19%
Canada/U.S. Exchange Rate	$1.001	$1.009	$0.9710	$0.9540
Employment[r]				
Labour Force	20,400	20,600	20,400	20,800
Employment	18,900	19,100	18,900	19,500
Unemployed	1,400	1,500	1,500	1,300
Unemployment Rate	6.9%	7.3%	7.2%	6.6%
Economic Output				
Real Gross Domestic Product (millions of chained 2007 dollars)	$2,489 (e)	$2,510	$2,511	$2,732
Real GDP Growth Rate	3.4%	2.0%	0.9%	8.8%
Commodity Prices~				
Gold ($US/oz)	$1,668	$1,708	$1,400	$1,240
Silver ($US/oz)	$31.15	$31.83	$23.20	$19.50
Zinc ($US/lb)	$0.88	$0.95	$0.86	$0.88
Copper ($US/lb)	$3.61	$3.61	$3.30	$3.25
Oil - WTI ($US/bbl)	$94.20	$94.00	$98.00	$102.00
Natural Gas – Henry Hub ($US/MMBTU)	$2.75	$3.60	$3.75	$4.25
Mining				
Value of Mineral Production	$509.6 million (p)	$550-600 million	$450-$500 million	$500-$550 million
Exploration Expenditures	$146 million (e)	--	$60 million	$75 million
Development Expenditures	$98 million (e)	--	$80 million	$100 million
Construction				
Permitted Building Construction	$100.4 million	$125 million	$80 million	$125 million
Trade				
Value of Retail Sales	$672 million	$690-700 million	$671 million	$691 million
Tourism				
Non-resident Border Crossings+	321,240	328,000	328,000	333,000

f = forecast, e = estimate, p = preliminary, r = revised, -- = not available
^ CPI increase for Whitehorse only
r annual averages – totals may not total due to rounding
~ annual averages
+ as reported by the Department of Tourism & Culture
* The preliminary 2013 forecast was included in the Yukon Economic Review 2012 which was released in February 2012. http://economics.gov.yk.ca/Files/Outlook2012_review.pdf

Data Sources for Key Economic Indicators Table

Indicator	*Source*
Population	Yukon Bureau of Statistics, Yukon Population Estimates, Yukon Department of Economic Development
Inflation (Consumer Price Index)	Statistics Canada, Consumer Price Index, Yukon Department of Economic Development
Overnight Rate	Bank of Canada (average daily rate), BMO Capital Markets
Canada/U.S. Exchange Rate	BMO Capital Markets
Labour Force Indicators	Statistics Canada, Yukon Labour Force Survey, Yukon Department of Economic Development
Economic Output (GDP)	Statistics Canada, Provincial Economic Accounts , Yukon Department of Economic Development
Commodity Prices	BMO Capital Markets
Value of Mineral Production	Natural Resources Canada Minerals and Mining Statistics Division, Yukon Department of Economic Development
Mineral Exploration Expenditures	Natural Resources Canada Minerals and Mining Statistics Division , Yukon Department of Economic Development
Mine Development Expenditures	Yukon Department of Energy, Mines & Resources, Yukon Department of Economic Development
Tourism Visitation	Yukon Department of Tourism & Culture, Yukon Department of Economic Development
Permitted Building Construction	Yukon Bureau of Statistics, Yukon Department of Economic Development
Retail Trade	Statistics Canada, Yukon Department of Economic Development